

WESTERN SIZZLIN CORP  
Form 10-K  
March 31, 2009  
[Table of Contents](#)

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

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**FORM 10-K**

**x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the fiscal year ended December 31, 2008**

**OR**

**o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the transition period from        to**

**Commission file number 0-25366**

**WESTERN SIZZLIN CORPORATION**

(Exact name of registrant as specified in its charter)

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**Delaware**

(State or other jurisdiction of incorporation or organization)

**86-0723400**

(I.R.S. Employer Identification No.)

**416 South Jefferson Street, Suite 600, Roanoke, Virginia**  
(Address of principal executive offices)

**24011**  
(Zip Code)

**(540) 345-3195**

Registrant's telephone number, including area code Securities registered pursuant to Section 12(b) of the Act:

**Title of each class**  
Common stock

**Name of each exchange on which registered**  
Nasdaq Capital Market

Securities registered pursuant to Section 12 (g) of the Act:

**None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes  No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.  Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Rule 405 of Regulation S-K is not contained herein, and will not be contained to the best of registrant's knowledge, in definitive proxy or informational statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

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Non-accelerated filer   
(Do not check if a smaller reporting company)

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).  Yes  No

The aggregated market value of the Company's voting common stock held by non-affiliates, based upon closing price on the Nasdaq Capital Market as of June 30, 2008, was approximately \$16,724,917. For purposes of this computation, the registrant assumed that its Directors and Executive Officers were affiliates.

As of March 31, 2009, there were 2,822,785 (excluding shares of treasury stock), \$0.01 par value, of common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Company's Proxy Statement for its Annual Meeting of the Stockholders are incorporated by reference in Part III, Items 10, 11, 12, 13, and 14.

Table of Contents

**WESTERN SIZZLIN CORPORATION  
FORM 10-K  
For the Fiscal Year Ended December 31, 2008**

**TABLE OF CONTENTS**

|                        |   | <b>Page</b> |
|------------------------|---|-------------|
| <b><u>PART I</u></b>   |   |             |
| <u>Item 1.</u>         | <u>Business</u>   | 1-5         |
| <u>Item 1A.</u>        | <u>Risk Factors</u>   | 6-10        |
| <u>Item 1B.</u>        | <u>Unresolved Staff Comments</u>  | 11          |
| <u>Item 2.</u>         | <u>Properties</u>   | 11          |
| <u>Item 3.</u>         | <u>Legal Proceedings</u>  | 11          |
| <u>Item 4.</u>         | <u>Submission of Matters to a Vote of Security Holders</u>  | 11          |
| <b><u>PART II</u></b>  |   |             |
| <u>Item 5.</u>         | <u>Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u> | 11-15       |
| <u>Item 6.</u>         | <u>Selected Financial Data</u>  | 15-16       |
| <u>Item 7.</u>         | <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>                        | 16-28       |
| <u>Item 7A.</u>        | <u>Quantitative and Qualitative Disclosures about Market Risk</u>   | 28-29       |
| <u>Item 8.</u>         | <u>Financial Statements and Supplementary Data</u>  | 29          |
| <u>Item 9.</u>         | <u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>                         | 29          |
| <u>Item 9A (T).</u>    | <u>Controls and Procedures</u>  | 29-30       |
| <u>Item 9B.</u>        | <u>Other Information</u>  | 30          |
| <b><u>PART III</u></b> |   |             |
| <u>Item 10.</u>        | <u>Directors, Executive Officers and Corporate Governance</u>   | 31          |
| <u>Item 11.</u>        | <u>Executive Compensation</u>   | 31          |
| <u>Item 12.</u>        | <u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>               | 31          |
| <u>Item 13.</u>        | <u>Certain Relationships and Related Transactions, and Director Independence</u>                                    | 31          |
| <u>Item 14.</u>        | <u>Principal Accountant Fees and Services</u>   | 31          |
| <b><u>PART IV</u></b>  |   |             |
| <u>Item 15.</u>        | <u>Exhibits and Financial Statement Schedules</u>   | 31          |
|                        | <u>SIGNATURES</u>   | 32          |
|                        | <u>Exhibit Index</u>  | 33-34       |

Table of Contents

*We make forward-looking statements in this report that are subject to risks and uncertainties. These forward-looking statements are based on our beliefs, assumptions and expectations of our future performance, taking into account all information currently available to us. These beliefs, assumptions and expectations can change as a result of many possible events or factors, not all of which are known to us. Our actual results could vary materially from those expressed in our forward-looking statements.*

*When we use the words expect, anticipate, estimate, may, will, should, intend, plan, or similar expressions, we intend to identify forward-looking statements. Forward-looking statements also include the assumptions that underlie such statements. We assume no obligation to update any of our forward-looking statements.*

*You should not place undue reliance on these forward-looking statements because they depend on assumptions, data or methodology that may be incorrect or imprecise and we may not be able to realize them.*

**Part I**

**Item 1. Business**

Western Sizzlin Corporation is a holding company owning subsidiaries engaged in number of diverse business activities. Our primary business activities are conducted through Western Sizzlin Franchise Corporation and Western Sizzlin Stores, Inc., which franchise and operate 110 restaurants in 19 states, including five Company-owned, 104 franchise restaurants, and one joint venture restaurant. We currently operate and/or franchise the following concepts: Western Sizzlin, Western Sizzlin Wood Grill, Great American Steak & Buffet, and Quincy Steakhouses.

Financial decisions are centralized at the holding company level, and management of operating businesses is decentralized at the business unit level. Investment and all other capital allocation decisions are made for us and our subsidiaries by Mr. Sardar Biglari, Chairman and Chief Executive Officer. Our primary objective centers on achieving above-average returns on capital in pursuit of maximizing the eventual net worth of our stockholders.

Effective January 1, 2007, we restructured our operations into a holding company/subsidiary format whereby all operations are now conducted through wholly-owned subsidiaries. This restructuring is not anticipated to have any tax impact and will have no impact on our financial reporting as we will continue to report consolidated financial statements.

In April 2007, we formed Western Investments, Inc., a Delaware corporation and wholly-owned subsidiary to serve as the general partner of Western Acquisitions, L.P., a Delaware limited partnership that operates as a private investment fund. Through Western Investments, Mr. Biglari operates as the portfolio manager to the fund.

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We seek to invest, at the holding company and through subsidiaries, including Western Acquisitions, L.P, in stocks of businesses at prices below their intrinsic business value. Our preferred strategy is to allocate a meaningful amount of capital in each investee, resulting in concentration. The carrying values of these investments are exposed to market price fluctuations, which may be accentuated by a concentrated equity portfolio. A significant decline in the price of major investments may produce a large decrease in our net earnings and our stockholders equity (See Note 6 of the Notes to Consolidated Financial Statements included in Item 15 of this Form 10-K).

Western Investments, Inc. is the majority investor in Western Acquisitions, L.P., at December 31, 2008. During the third quarter ended September 30, 2007, we contributed cash along with holdings in the common stock of The Steak n Shake Company to Western Investments, Inc., which in turn contributed these assets to Western Acquisitions, L.P.

Western Investments' role as the general partner of Western Acquisitions, L.P. carries with it the obligation to manage the operations of the fund. For serving as the fund's general partner, Western Investments may receive a monthly management fee equal to one-twelfth of 1% of the value of the capital account of each limited partner. It also may receive an annual incentive allocation equal to 20% of the portion of each limited partner's pro rata share of the fund's net profits for each fiscal year in excess of net losses allocated to each limited partner and carried forward from prior years. All or part of these fees may be waived by Western Investments. The fund no longer offers two classes of limited partnership interests.

Table of Contents

**Restaurant and Franchise Operations Overview**

**Restaurant Operations and Support**

Our aim is to deliver a dining experience that exceeds customer expectations. Consistently providing high quality, flavorful food products with both a full line of entree offerings and an enhanced buffet bar offering can be a challenge. Our goal is not only to meet this challenge, but to exceed the guest expectation of both quality and service, and to offer a price point that the guest will perceive as an exceptional value.

There are several factors necessary for achieving our goal:

- Food Quality:
  - Our restaurants use high quality ingredients in all menu offerings. Additionally, all food preparation is done on premises, by either small batch or large batch cooking procedures. Guest flow determines which type will be used.
  - We strive to ensure that each recipe is prepared and served promptly to guarantee maximum freshness, appeal and that proper serving temperatures are maintained. We believe that our food preparation and delivery system enables us to produce higher quality and more flavorful food than is possible in other steak and buffet or cafeteria style restaurants.
- Menu Selection:

Our restaurants emphasize two traditional American style offerings:

- The first is the traditional family style steakhouse, which became popular during the 1960 s. Since that time, the primary red meat offering has grown extensively and now includes a vast array of chicken, pork, seafood and many other protein dishes.

- The second is a full line of both hot & cold food buffet, which has become a very appealing option for our guests. Our rotating daily menu offerings, displayed on one of our many scatter bars in the buffet area, clearly demonstrate our home cooking flavor profile.

We believe that our extensive food offering provides the guest with delicious variety and a flavorful dining experience that will encourage them to visit our restaurants time after time.

- **Price/Value Relationship:**

We are committed to providing our guests with excellent price to value alternatives in the full-service casual dining restaurant sector and traditional steak and buffet restaurants. At our restaurants, the guests are provided with a choice of many different entree offerings and they can also choose to enjoy our all-you-care-to-eat unlimited food or buffet bar offerings. We believe the perceived price value is excellent, with lunch ranging generally between \$5.00 and \$10.00 dinner ranging generally between 7.00 and \$15.00. Additionally, our restaurants normally offer special reduced prices for senior citizens and children under 12 and other special promotions from time to time.

- **Efficient Food Service and Delivery System:**

The scatter bar format, food preparation methods and restaurant layout are all designed to efficiently serve a large number of guests, while enhancing the overall quality of the dining experience. In addition, preparing food in the proper amounts, serving it in several easily accessible areas (scatter bars) and closely monitoring consumption will shorten guest lines, increase frequency of table turns, improve over-all quality and reduce waste; thereby increasing guest satisfaction and restaurant level profitability. Our restaurants range in size from approximately 5,200 square feet to 12,000 square feet. A description of these properties is provided in Item 2.



Table of Contents

**Site Selection and Construction**

In selecting new restaurant locations, we consider target population density, local competition, household income levels and trade area demographics, as well as specific characteristics, including visibility, accessibility, parking capacity and traffic volume. An important factor in site selection is the convenience of the potential location to both lunch and dinner guests and the occupancy cost of the proposed site. We also take into account the success of other chain restaurants operating in the area.

Potential site locations are identified by a potential franchisee and/or corporate personnel, consultants and independent real estate brokers. Our executive management team will approve or disapprove any proposed restaurant site. The majority of restaurants are free-standing but some restaurants are developed in other formats such as strip centers.

Historically when a restaurant has been built in an existing facility, renovation and construction has taken approximately 60 to 120 days after the required construction permits have been obtained. New construction of free-standing restaurants requires a longer period of time and can range from 120 to 180 days. Also, when obtaining a construction permit, we have generally experienced a waiting period ranging from approximately 20 to 90 days.

Restaurants are constructed by outside general contractors. We expect to continue this practice for the foreseeable future.

**Restaurant Management and Employees**

The management staff of a typical restaurant consists of one General Manager, one Assistant General Manager and one or two Associate Managers. Individual restaurants typically employ between 40 and 80 non-management hourly employees (a mix of both part-time and full-time workers), depending on restaurant size and sales volume.

The General Manager of a restaurant has responsibility for the day-to-day operation of a restaurant, acts independently to maximize restaurant performance, and follows company-established management policies. The General Manager makes personnel decisions and determines orders for produce and dairy products, as well as, centrally contracted food items and other supplies.

**Recruiting**

We attempt to attract and train high quality employees at all levels of restaurant operations. Generally, restaurant management is either recruited from outside the company and has had significant prior restaurant experience or has been promoted through the system as experience levels increased. As we continue to grow, our management will continue to recruit restaurant management personnel from among non-management employees within our system and supplement these resources through outside hiring.

### **Management Training**

We have implemented strict operating standards. We maintain a strong standardized training process which plays a critical role in maintaining operational propriety. All management employees, including Assistant Managers, regardless of former experience, participate in a six to eight week formal course of training. Periodically, additional training is provided during each calendar year through a series of two to three day seminars, to provide the most current information on a variety of topics including sales building techniques, labor controls and food cost management. Non-management employees are generally trained at the local restaurant site.

### **Purchasing**

In 2008, we re-negotiated contracts and executed three-year regional contracts with three broadline distributors to begin February 1, 2009, and one to twelve month agreements with other vendors, as well. This allows us to maximize our buying power based on volume. We utilize velocity reports supplied by our various distributors to look for opportunities to consolidate our purchases resulting in cost of food savings. Our stores are divided into areas based on geographical location. While each store places their own orders with the various distributors, the most successful stores are the ones who support the areas and use the volume of the combined buying power to be as economically efficient as possible.

Table of Contents

**Hours of Operation**

Our restaurants are open seven days a week, typically from 11:00 a.m. to 10:00 p.m.

**Franchise Operations**

Our standard franchise agreement has a 20-year term, with one ten-year renewal option. It generally provides for a one-time payment to us of an initial franchise fee and a continuing royalty fee based on gross sales. We collect weekly and monthly sales reports from our franchisees as well as periodic and annual financial statements.

Each franchisee is responsible for selecting the location for its restaurant, subject to our approval. We consider such factors as demographics, competition, traffic volume and patterns, parking, site layout, size and other physical characteristics in approving proposed sites.

Franchisees must operate their restaurants in compliance with our operating and recipe manuals. Franchisees are not required to purchase food products or other supplies through our suppliers, but are required to purchase proprietary products from us. Each franchised restaurant must have a designated General Manager and Assistant Manager who have completed our six-week manager training program or who have been otherwise approved by us. For the opening of a restaurant, we provide consultation and make our personnel generally available to a franchisee. In addition, we send a team of personnel to the restaurant for up to two weeks to assist the franchisee and its managers in the opening, the initial marketing and training effort, as well as the overall operation of the restaurant.

We may terminate a franchise agreement for a number of reasons, including a franchisee's failure to pay royalty fees when due, failure to comply with applicable laws, or repeated failure to comply with one or more requirements of the franchise agreement. Many state franchise laws limit our ability to terminate or refuse to renew a franchise. A franchisee may terminate a franchise agreement and continue to operate the restaurant as a competitive concept by paying liquidated damages to us. We do not anticipate that the termination of any single franchise agreement would have a materially adverse effect on our operations. Termination by a multiple-unit franchisee of several franchise agreements for various locations could, however, have a materially adverse effect on our operations.

Our franchise agreement contains provisions that prohibit franchisees from disclosing proprietary information about our restaurant operating system. Our standard franchise agreement also contains non-competition provisions that, for the duration of the agreement and for one or two years following termination, prohibit a franchisee from directly or indirectly competing with us or soliciting employees to leave us. There is no assurance that these contractual provisions will effectively prevent the appropriation by franchisees of business opportunities and proprietary information. More discussion is contained in the caption Government Regulation.

**Marketing and Promotion**

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Marketing and operations work hand-in-hand for all of our company concepts where a shared mutual vision provides value to the guest through hard work, quality and high standards. We know that communication plays a strong role in the fulfillment of our goals.

The Advertising Development and Research Fund or ADRF, is financed through vendor support and member dues. It is incorporated under the name WSI ADRF, Inc.

ADRF creates, designs and produces each marketing campaign for the company and our franchisees. Production includes several major marketing campaigns annually in addition to menus, table tents, posters, indoor and outdoor signage, gift certificates and other marketing tools.

The marketing effort is communicated through a vast system of printed materials such as a corporate newsletter, internet webpages, training manuals, tapes and videos.

The marketing department is primarily self-sufficient in production capabilities with some of the most sophisticated computer and graphic equipment available. ADRF is staffed by professionals experienced in all phases of marketing, graphics / design, and communications. Their efforts have produced and coordinated promotions that include national sweepstakes campaigns, television commercials, national convention materials and training videos.

Table of Contents

The coordinated efforts of ADRF, area field consultants, training instructors, corporate personnel, franchise owners, managers and the entire system of operators share in the ongoing success of marketing programs. Our programs utilize virtually all types of media including billboards, newspapers, television and radio.

**Restaurant Industry and Competition**

The restaurant industry is extremely competitive. We compete on the basis of the quality and value of food products offered, price, service, ambiance and overall dining experience. Our competitors include a large and diverse group of restaurant chains and individually owned restaurants. The number of restaurants with operations generally similar to ours has grown considerably in the last several years. We believe competition among this style of restaurant is increasing.

In addition, our business is affected by changes in consumer tastes, national, regional and local economic conditions and market trends. The performance of individual restaurants may be affected by factors such as traffic patterns, demographic considerations and the type, number and location of competing restaurants. Our significant investment in, and long-term commitment to, each of our restaurant sites limits our ability to respond quickly or effectively to changes in local competitive conditions or other changes that could affect our operations. Our continued success is dependent to a substantial extent on our reputation for providing high quality and value and this reputation may be affected not only by the performance of company-owned restaurants but also by the performance of franchisee-owned restaurants over which we have limited control.

**Government Regulation**

Our business is subject to and affected by various federal, state and local laws. Each restaurant must comply with state, county and municipal licensing and regulation requirements relating to health, safety, sanitation, building construction and fire prevention. Difficulties in obtaining or failure to obtain required licenses or approvals could delay or prevent the development of additional restaurants. We have not experienced significant difficulties in obtaining such licenses and approvals to date.

We are subject to Federal Trade Commission (FTC) regulation and various state laws that regulate the offer and sale of franchises. The FTC requires us to provide prospective franchisees with a franchise offering circular containing prescribed information about us and our franchise operations. Some states in which we have existing franchises and a number of states in which we might consider franchising regulate the sale of franchises. Several states require the registration of franchise offering circulars. Beyond state registration requirements, several states regulate the substance of the franchisor-franchisee relationship and, from time to time, bills are introduced in Congress aimed at imposing federal registration on franchisors. Many of the state franchise laws limit, among other things, the duration and scope of noncompetition and termination provisions of franchise agreements.

Our restaurants are subject to federal and state laws governing wages, working conditions, citizenship requirements and overtime. From time-to-time, federal and state legislatures increase minimum wages or mandate other work-place changes that involve additional costs for our restaurants. There is no assurance that we will be able to pass such increased costs on to our guests or that, if we were able to do so, we could do so in a short period of time.

## Trademarks

We believe our rights in our trademarks and service marks are important to our marketing efforts and a valuable part of our business. Following are marks that are registered for restaurant services on the Principal Register of the U.S. Patent and Trademark Office: Western Sizzlin , Western Sizzlin Steak House , Western , Sizzlin , Western Sizzlin Cow , Western Sizzlin Steak & More , Western Sizzlin County Fair Buffet and Bakery , Flamekist , Marshall , Gun Smoke , Six Shooter , Big Tex , Dude , Trailblazer , Ranger , Cheyenne , Colt 45 , Cookin' What Amn , American Steak and Buffet Company , Great American Buffet , Western Sizzlin Wood Grill and Buffet , and Western Sizzlin Wood Grill .

## Employees

As of December 31, 2008, we employed approximately 271 persons, of whom approximately 237 were restaurant employees, 21 were restaurant management and supervisory personnel, and 13 were corporate personnel. Restaurant employees include both full-time and part-time workers and all are paid on an hourly basis. None of our employees is covered by a collective bargaining agreement and we consider our employee relations to be good.

Table of Contents

**Item 1A. Risk Factors**

An investment in our common stock involves a degree of risk. These risks should be considered carefully with the uncertainties described below, and all other information included in this Annual Report on Form 10-K, as well as other filings that we make from time to time with the SEC, before deciding whether to purchase our common stock. Additional risks and uncertainties not currently known to us or that we currently deem immaterial may also become important factors that may harm our business, financial condition, results or operations, or cash flows. The occurrence of any of the following risks could harm our business, financial condition, results of operations, or cash flows. The trading price of our common stock could decline due to any of these risks and uncertainties, and you may lose all or part of your investment.

**We are dependent on key personnel.**

We believe that our success depends in part on the services of Sardar Biglari, our Chairman, President and Chief Executive Officer, and Robyn B. Mabe, Vice President and Chief Financial Officer. The loss of the services of Mr. Biglari or Mrs. Mabe could have a material adverse effect upon our business, financial condition and results of operations. Qualified replacements may not be available in a timely manner, if at all. Our continued growth will also depend on our ability to attract and retain additional skilled management personnel.

**Mr. Biglari, our Chairman and Chief Executive Officer, holds the same offices at another public company.**

In addition to his positions with our Company, Mr. Biglari also serves as the Chairman and Chief Executive Officer of the Steak 'n Shake Company, an NYSE listed firm, and spends a substantial amount of his time at that company.

**Our stock price could be volatile.**

Fluctuations in our stock price may result from general market conditions, perceived changes in the underlying characteristics of our business, and the relative price of competing investments. The volume of trading in the market for our common stock is typically very limited. As a consequence, liquidating your investment could cause a decline in our stock price. Because of changes in the balance of buy and sell orders, notwithstanding other relevant factors, the price of our common stock can fluctuate for reasons unrelated to the performance of our business.

**A substantial amount of our common stock is controlled by one person.**

Sardar Biglari, our Chairman and Chief Executive Officer, beneficially owns or exercises voting control over approximately 34% of our outstanding common stock. Further details on Mr. Biglari's holdings are reflected in the Schedule 13D, as amended, which he has filed with the SEC. Through his exercise of voting control over such a substantial amount of our common stock, Mr. Biglari is in a position to significantly influence all matters requiring the approval of our stockholders including the election of directors. Also, a sale of a substantial number of these

shares in the public market could materially reduce the prevailing market price of our common stock.

**Our wholly-owned subsidiary, Western Properties, Inc. serves as the general partner of a private investment limited partnership, Western Real Estate, L.P., which had no limited partners in 2008 but intends to operate as a private real estate investment partnership.**

In December 2007, we formed Western Properties, Inc., a Delaware corporation, as a wholly-owned subsidiary. Western Properties is the general partner of Western Real Estate, L.P., a Delaware limited partnership also formed in December 2007. There were no limited partners in the partnership at December 31, 2008 and the sole activity of these entities has been the purchase in 2007 by the limited partnership of 23 acres of real property in Bexar County, Texas from an unaffiliated third party. It is the intention of Western Real Estate, L.P., to operate as a private limited partnership investing in real estate, however, this venture is in the formative stages and there is no guarantee that it will be successful.

**We are dependent on one key person for investment and capital allocation decisions.**

Investment decisions and all major capital allocation decisions are made for us and our subsidiaries, including Western Acquisitions, by Sardar Biglari, our Chairman of the Board of Directors, Chief Executive Officer and President. Although there are limitations on Mr. Biglari's authority at the parent company level and our Board of Directors monitors his investment and capital allocation decisions, there is risk in having concentrated decision-making authority. Mr. Biglari's



Table of Contents

decisions could either independently or in the aggregate involve amounts that are material to our business. Additionally, if for any reason the services of Mr. Biglari were to become unavailable, there could be a material adverse effect on our business, since he is singularly responsible for these decisions.

**Our investments in marketable securities, including through Western Acquisitions L.P., are highly concentrated.**

Our investments in marketable securities, including through Western Acquisitions, L.P., are highly concentrated. A decline in the market value of these investments may result in a decrease in our stock price.

**Our investment activities, including through Western Acquisitions, L.P., may involve the purchase of securities on margin.**

We may purchase securities on margin in connection with our investment activities, including through Western Acquisitions, L.P. If we do so, a significant decrease in the value of the securities that collateralize the margin line of credit could result in a margin call. If we do not have sufficient cash available from other sources in the event of a margin call, we may be required to sell those securities at a time when we would prefer not to sell them.

**Our investment activities could require registration as an Investment Company.**

While we have historically been principally engaged in franchising and operating restaurants, our recent investment activities could bring us within the definition of an investment company and require us to register as an investment company under the Investment Company Act of 1940. The Board of Directors has adopted a policy requiring management to restrict the Company's operations and investment activities to avoid becoming an investment company, until and unless the Board approves otherwise. We do not intend to change our principal business and the Board has not approved otherwise. Although we do not presently intend to change its principal business, and the Board has not approved any such change, we have expanded our investment activities, and may decide in the future to register as an investment company under the Investment Company Act. Also, under certain circumstances, if we are successful in investment activities, then we may inadvertently fall within the definition of an investment company, in which event we may be required to register as an investment company.

Notwithstanding our Board policy, if our investment activities inadvertently result in our being determined to be an investment company and we fail to register as an investment company, we might be unable to enforce contracts with third parties, and third parties could seek rescission of transactions with us undertaken during the period that we were an unregistered investment company, subject to equitable considerations set forth in the Investment Company Act. In addition, we might be subject to monetary penalties or injunctive relief, or both, in an action brought against us by the SEC.

If we decide to register as an investment company, then we would become subject to various provisions of the Investment Company Act and the regulations adopted under such Act, which are very extensive and could adversely affect our operations. For example, we might be prohibited from entering into or continuing transactions with certain of our affiliates.

**We are experiencing a decline in our franchise base.**

We have experienced steady declines in our existing franchise base for the past several years. Since January 1, 2005, we had a total of 44 closures and currently have a total of 109 franchised restaurants. Of the 44 closed restaurants the majority were Western Sizzlin brand restaurants. The average annual sales of our franchised restaurants are approximately \$1.6 million. The average annual sales of the closed restaurants were \$1.0 million or less. The closures of franchised restaurants were caused by their operating at a competitive disadvantage which stemmed from such factors as location, facility, lack of reinvestment and mismanagement, among others factors. There is no guarantee that these reasons will be eliminated. Moreover, these closures occurred during generally favorable economic conditions and it is possible that this trend could accelerate given the present economic downturn. We are striving to reverse this trend by revitalizing our franchise models. However, maintaining and growing our existing franchise base is dependent upon many of the same factors that apply to our Company-owned restaurants. Sometimes the challenges of operating profitable restaurants prove to be more difficult for our franchisees. For example, franchisees may not have access to the financial or management resources that they need to operate their restaurants. Accordingly, there is no assurance that we will be successful in doing so and as a result our franchise base may continue to decline regardless of the economic environment.

Due to our smaller restaurant base and geographic concentration, our operating results could be materially and adversely affected by the negative performance of, or the decision to close, a small number of restaurants.

Table of Contents

Our restaurant base, both franchised and Company-owned, is smaller and less geographically diverse than many other restaurant chains. Accordingly, poor operating results in one or more of our markets or the decision to close even a relatively small number of underperforming restaurants could materially and adversely affect our business, financial condition, results of operation, or cash flows.

**Our restaurants operate in a highly competitive environment.**

Our restaurants, both franchised and Company-owned, operate in a highly competitive industry comprised of a large number of restaurants, including national and regional restaurant chains and franchised restaurant operations, as well as locally-owned, independent restaurants. Price, restaurant location, food quality, service and attractiveness of facilities are important aspects of competition. The competitive environment is often affected by factors beyond a particular restaurant management's control, including changes in the public's taste and eating habits, population and traffic patterns and economic conditions. New competitors may emerge at any time. We may not be able to compete successfully against our competitors in the future. Competition may have a material adverse effect on our operations or earnings.

**The inability of our franchisees to operate profitable restaurants may negatively impact our financial performance.**

Under the agreements we have with our franchisees, we collect royalties and other fees from our franchisees. As a result, the ability of our franchisees to generate profits and pay royalties to us impacts our overall profitability and brand recognition.

**We are highly dependent on attracting and retaining qualified employees while also controlling labor costs.**

We are extremely dependent upon the availability of qualified restaurant personnel. Availability of staff varies widely from location to location. If restaurant management and staff turnover trends increase, we would suffer higher direct costs associated with recruiting and retaining replacement personnel. We could suffer from significant indirect costs, including restaurant disruptions due to management changeover and potential delays in new store openings due to staff shortages. Competition for qualified employees exerts upward pressure on wages paid to attract personnel, resulting in higher labor costs, together with greater expense to recruit and train them. Many of our employees are hourly workers whose wages are likely to be impacted by an increase in the federal or state minimum wage. An increase in the minimum wage may require an increase or create pressure to increase the pay scale for our employees. A shortage in the labor pool or other general inflationary pressures or changes could also increase our labor costs.

**We are dependent upon the timely delivery of fresh ingredients.**

Our restaurant operations are dependent on timely deliveries of fresh ingredients, including fresh produce, dairy products and meat. The cost, availability and quality of the ingredients we use to prepare our food are subject to a range of factors, many of which are beyond our control. Fluctuations in weather, supply and demand and economic and political conditions could adversely affect the cost, availability and quality of our ingredients. Historically, when operating expenses increased due to inflation or increases in food costs, we generally have been able to offset these higher costs by increasing our menu prices. We may not be able to recover increased costs in the future because competition may limit or even prohibit such future increases. If the variety or quality of our food products declines due to the lack or lower quality of our ingredients or

due to interruptions in the flow of fresh ingredients and similar factors, customer traffic may decline and negatively affect our sales.

**We may not be able to adequately protect our intellectual property, which could decrease the value of our brand and products.**

The success of our business depends on our continued ability to use the existing trademarks, service marks, and other components of our brand to increase brand awareness and further develop branded products. While we take steps to protect our intellectual property, our rights to our trademarks could be challenged by third parties or our use of the trademarks may result in liability for trademark infringement, trademark dilution, or unfair competition, adversely affecting our profitability.

**General economic factors may adversely affect our results of operations.**

National, regional, and local economic conditions, such as recessionary economic cycles or a worsening economy, could adversely affect disposable consumer income and consumer confidence. Unfavorable changes in these factors or in

Table of Contents

other business and economic conditions affecting our customers could reduce customer traffic in some or all of our restaurants, impose practical limits on our pricing and increase our costs. Any of these factors could lower our profit margins and have a material adverse effect on our results of operations. The impact of inflation on food, beverages, labor, utilities and other aspects of our business can negatively affect our results of operations. Although we attempt to offset inflation through periodic menu price increases, cost controls and incremental improvement in operating margins, we may not be able to completely do so. This may negatively affect our results of operations.

**Current levels of market volatility are unprecedented.**

There has been substantial uncertainty and disruption in the capital and credit markets over the past twelve months. Recently the uncertainty and disruption have reached unprecedented levels. This uncertainty could negatively impact the Company and cause fluctuation in the Company's stock price. Additionally, these conditions could have an adverse effect on the Company's business, including the future operating results of the Company's restaurants and the value of the Company's investments.

**The Company is vulnerable to changes in economic conditions and consumer spending patterns that could harm its business, financial condition, results of operations and cash flow.**

The restaurant industry has been affected by the current economic factors, including the deterioration of national, regional and local economic conditions, rising unemployment and shifts in consumer spending patterns. The recent disruptions in the overall economy have reduced and may continue to reduce, consumer confidence in the economy, negatively affecting consumer restaurant spending, which could be harmful to our financial position and operating results. As a result, decreased cash flow generated by our business may adversely affect our financial position and our ability to fund our operations. In addition, macro economic disruptions, as well as the restructuring of various commercial and investment banking organizations, could adversely affect our ability to access the credit markets. The disruption in the credit markets may also adversely affect the availability of financing for our franchisees' operations, and could impact our vendors' ability to meet our supply requirements. There can be no assurances that government responses to the disruptions in the financial markets will restore consumer confidence, stabilize the markets, or increase liquidity and the availability of credit.

Furthermore, the Company could experience reduced customer traffic or limitations on the prices it can charge for its products, either of which could reduce the Company's sales and profit margins and have a material adverse effect on the Company's financial condition and results of operations.

**Changes in guest preferences for casual dining styles or menu items could adversely affect our financial performance.**

Changing guest preferences, tastes, and dietary habits can adversely impact our business and financial performance. Our restaurant models offer a varied entrees, side dishes, salads and desserts. Our continued success depends, in part, on the popularity of our product offerings and casual style of dining. A change in guest preferences away from this style or our offerings in favor of other dining styles or offerings may have an adverse impact on our business.

**We face the risk of adverse publicity and litigation relating to food-borne illness, employment and other matters that could have a material adverse affect on our business and financial performance.**

We may be the subject of complaints or litigation from customers alleging illness, injury or other food quality, health or operational concerns. While the risk of food-borne illness is real, whether it results from improper operations, new diseases or from chemicals in certain food products, the risk would generally only affect a limited number of our restaurants. As soon as any food issues became known to us, those food items that were potentially at risk would be no longer served to customers.

While the risk of food-borne illness or injury would likely be localized, the risk of the adverse publicity that might result from such an incident is more generalized and accordingly much greater. The general public's response to adverse publicity relating to our restaurant brands could materially adversely affect a significant number of our restaurants. This could be true whether the allegations underlying the adverse publicity are valid or whether we are liable.

Furthermore, more generalized health concerns about the consumption of beef or chicken due to reported incidents of diseases such as Bovine Spongiform Encephalopathy ( mad cow disease ) or Avian Influenza ( bird flu ) could lead to changes in customer preferences, reduce consumption of our products and adversely affect our financial performance. These events could also reduce the available supply of beef or chicken or significantly raise the prices of beef or chicken.

Table of Contents

In addition, we are subject to employee claims alleging injuries, wage and hour violations, discrimination, harassment or wrongful termination. In recent years, a number of restaurant companies have been subject to lawsuits, including class action lawsuits, alleging violations of federal and state law regarding workplace, employment and similar matters. A number of these lawsuits have resulted in the payment of substantial damages by the defendants. Regardless of whether any claims against us are valid or whether we are ultimately determined to be liable, claims may be expensive to defend and may divert time and money away from our operations and hurt our financial performance. A significant judgment for any claim(s) could materially adversely affect our financial condition or results of operations.

**We are regulated by the federal and state government.**

The restaurant industry is subject to extensive federal, state and local laws and regulations. The development and operation of restaurants depend to a significant extent on the selection and acquisition of suitable sites. Those are subject to zoning, land use, environmental, traffic and other regulations and requirements. We are also subject to licensing and regulation by state and local authorities relating to health, sanitation, safety and fire standards and building codes. Federal and state laws govern our relationships with employees, including the Fair Labor Standards Act and applicable minimum wage requirements, overtime, employment tax rates, family leave, tip credits, working conditions, safety standards and citizenship requirements. Federal and state laws prohibit discrimination and other laws regulating the design and operation of facilities, such as the American with Disabilities Act of 1990. In addition, we are subject to a variety of federal, state and local laws and regulations relating to the use, storage, discharge, emission and disposal of hazardous materials. The impact of current laws and regulations, the effect of future changes in laws or regulations that impose additional requirements and the consequences of litigation relating to current or future laws and regulations could increase our compliance and other costs of doing business. These could adversely affect our results of operations. Failure to comply with the laws and regulatory requirements of federal, state and local authorities could result in revocation of required licenses, administrative enforcement actions, fines and civil and criminal liability.

**Adverse weather conditions or losses due to casualties such as fire could negatively impact our financial performance.**

Although we maintain, and require our franchisees to maintain, property and casualty insurance to protect against property damage caused by casualties and natural disasters, inclement weather, flooding, hurricanes, fire and other acts of God can adversely impact our sales in several ways. For example, severe weather typically discourages potential customers from dining out. In addition, a restaurant that is damaged by a natural disaster can be inoperable for a significant amount of time due to either physical damage or to a shortage of employees resulting from a relocation of the general population.

**Litigation could have a material adverse effect on our financial position, cash flows and results of operations.**

In September 2006, the Company was served with a lawsuit filed in the Circuit Court of Pulaski County, Arkansas, captioned *Parks Land Company, LLP, et al. v. Western Sizzlin Corporation, et al.* The plaintiffs are owners/landlords of four restaurant premises located in the Little Rock, Arkansas metropolitan area which had been leased pursuant to a single ten year lease agreement. The Company occupied these locations for a period of time, but before the end of the lease, subleased each of these premises to various operators. The ten year lease agreement expired on June 30, 2006. In the lawsuit the plaintiffs sought recovery of alleged damages for certain repair and maintenance expenses on the premises, for the replacement of certain equipment, for diminution of property value, and for loss of rental income, as well as interest and costs. The case was tried to a 12 person jury in Little Rock, starting February 12, 2008. The jury returned a verdict for the plaintiffs on February 20, 2008, in the amount of \$689,526. On February 29, 2008, the Circuit Court of Pulaski County, Arkansas entered judgment on the jury's verdict in the case against the Company in the amount of \$689,666 plus plaintiff's legal costs. The Company posted a bond to secure the judgment and stay collection pending the appeal of the verdict. The appeal has now been fully briefed by both sides. A decision from the Arkansas Court of

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Appeals is expected by June 2009. If the appellate court affirms the judgment against the Company, the amount due the plaintiffs would include interest accrued on the judgment from February 29, 2008, through the period of the decision on appeal. This additional amount is not expected to exceed \$70,000. If the verdict is affirmed, the Plaintiffs will renew their efforts to have the trial court award Plaintiffs their attorneys' fees. To date, the court has declined to make any award of fees. There has been no change in the Company's loss contingency accrual of \$900,000 since December 31, 2007.

We are also from time to time a party to various other legal actions which are ordinary routine matters incidental to our business. While we believe that the ultimate outcome of these matters individually and in the aggregate will not have a material impact on our financial position, we cannot assure that an adverse outcome on any of these matters would not, in fact, materially impact our financial position, cash flows and results of operations.



Table of Contents

**Item 1B. Unresolved Staff Comments**

None.

**Item 2. Properties**

At December 31, 2008, our five (5) Company-owned restaurants are located in leased space ranging from 8,000 square feet to 10,000 square feet. Leases are negotiated with initial terms of five to twenty years, with multiple renewal options. All of our leases provide for a minimum annual rent, with certain locations subject to additional rent based on sales volume at the particular locations over specified minimum levels. Generally, the leases are net leases which require us to pay the costs of insurance, taxes, and a pro rata portion of lessors' common area costs.

We currently lease our executive office, approximately 4,800 square feet, which is located at 416 S. Jefferson St., Suite 600, Roanoke, Virginia 24011.

**Item 3. Legal Proceedings**

We accrue for an obligation in all known contingencies, including estimated legal costs, when a loss is probable and the amount is reasonably estimable. As facts concerning contingencies become known to us, we reassess our position with respect to accrued liabilities and other expenses. These estimates are subject to change as events evolve and as additional information becomes available during the litigation process.

Please see the discussion of the Parks Land Company matter on page 10. In addition, we are involved in various other claims and legal actions arising in the ordinary course of business. In the opinion of our management, the ultimate disposition of these other matters will not have a material adverse effect on our financial condition, results of operations or liquidity.

**Item 4. Submission of Matters to a Vote of Security Holders**

None.

**Part II**

**Item 5. Market for Registrant's Common Equity and Related Stockholder Matters and Issuer's Purchases of Equity Securities**

**Common Stock Price and Dividend Data**

Since February 25, 2008, our common stock has been traded on the NASDAQ Capital Market under the symbol WEST. The following table sets forth, for the periods indicated, the high and low sales prices for the common stock as reported.

| <b>Fiscal Year Ended December 31, 2008</b>  |    | <b>High</b> |    | <b>Low</b> |
|---|----|-------------|----|------------|
| Fourth Quarter 2008                         | \$ | 14.35       | \$ | 7.10       |
| Third Quarter 2008                          | \$ | 15.90       | \$ | 13.27      |
| Second Quarter 2008                         | \$ | 16.50       | \$ | 12.13      |
| First Quarter 2008 (from February 25, 2008) | \$ | 20.00       | \$ | 14.25      |

Prior to February 25, 2008, our common stock was quoted on the OTC Bulletin Board under the symbol WSZL.OB. The following table sets forth, for the periods indicated, the range of high and low bid prices for the common stock as reported. Please note that quotations reflect inter-dealer prices, without mark-up, mark-down or commission and may not necessarily represent actual transactions.

| <b>Fiscal Years Ended December 31, 2008 and 2007</b> |    | <b>High</b> |    | <b>Low</b> |
|--|----|-------------|----|------------|
| First Quarter 2008 (through February 25, 2008)       | \$ | 17.50       | \$ | 12.80      |
| Fourth Quarter 2007                                  | \$ | 18.75       | \$ | 12.35      |
| Third Quarter 2007                                   | \$ | 17.50       | \$ | 15.05      |
| Second Quarter 2007                                  | \$ | 16.43       | \$ | 12.10      |
| First Quarter 2007                                   | \$ | 12.50       | \$ | 8.38       |
| First Quarter 2007                                   | \$ | 12.50       | \$ | 8.38       |

Table of Contents

As of March 31, 2009 there were approximately 600 stockholders of record of our common stock.

Our Board of Directors has not declared a dividend in either of the two most recent fiscal years. Our last dividend was paid in 2003 and we do not anticipate paying a dividend in the foreseeable future.

**Purchases of Equity Securities by the Issuer**

- ***Marketable Securities held by Western Sizzlin Corporation (the holding Company)***

Marketable equity securities held by Western Sizzlin Corporation (the holding company) are held for an indefinite period and thus are classified as available-for-sale. Available-for-sale securities are recorded at fair value in Investments in Marketable Securities on the consolidated balance sheet, with the change in fair value during the period excluded from earnings and recorded, net of tax, as a component of other comprehensive income (loss).

During the year, the Company completed an exchange offer to acquire shares of IteX Corporation in exchange for the Company's common stock. A total of 864,487 shares of IteX common stock were validly tendered. The Company issued 57,196 shares of common stock in exchange for IteX shares tendered, based upon the exchange ratio of one share of IteX common stock for .06623 shares of the Company's common stock as set forth in the tender offer. As of December 31, 2008, the Company owns 1,704,201 shares of IteX common stock, which represents approximately 10% of IteX's total outstanding stock.

Following is a summary of marketable equity securities held by Western Sizzlin Corporation (the holding company) as December 31, 2008 and 2007:

|                          | Cost         | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Fair Value |
|--------------------------|--------------|------------------------------|-------------------------------|------------|
| <b>December 31, 2008</b> |              |                              |                               |            |
| IteX Corporation         | \$ 1,487,631 | \$                           | \$ (771,867)                  | \$ 715,764 |
| Other                    | 25,093       |                              | (13,136)                      | 11,957     |
|                          | \$ 1,512,724 | \$                           | \$ (785,003)                  | \$ 727,721 |
| <b>December 31, 2007</b> |              |                              |                               |            |
| IteX Corporation         | \$ 584,332   | \$ 116,382                   | \$                            | \$ 700,714 |
| Other                    | 21,057       | 12,463                       |                               | 33,820     |
|                          | \$ 605,389   | \$ 128,845                   | \$                            | \$ 734,534 |

During 2007, the Company realized net gains on sales of marketable securities held by Western Sizzlin Corporation (the holding company) of \$1,923,379, comprised of gross gains of \$3,692,662 and gross losses of \$1,769,483. There were no realized gains or losses from marketable equity securities held by Western Sizzlin for the year ended December 31, 2008.

Management has evaluated unrealized losses on marketable equity securities held by Western Sizzlin Corporation (the holding Company) to determine if such impairment is other than temporary, and has concluded that they are temporary as of December 31, 2008. In the event management concludes in future periods that such losses are other than temporary, a charge will be taken in the statement of operations to reduce the cost of the securities to their fair value.

Substantially all of the marketable equity securities held by Western Sizzlin Corporation (the holding company) have been in a continuous loss position for less than six months as of December 31, 2008.

Table of Contents

- ***Marketable Securities held by Western Acquisitions, LP***

In April 2007, the Company formed Western Investments, Inc., a Delaware corporation and wholly-owned subsidiary, to serve as the general partner of Western Acquisitions, LP; a Delaware limited partnership that operates as a private investment fund. Through Western Investments, Inc., Mr. Biglari operates as the portfolio manager to the fund. During the third quarter of 2007, the Company contributed cash along with its holdings in the common stock of The Steak n Shake Company to Western Investments, Inc., which in turn contributed these assets to Western Acquisitions, LP. Cash contributions from outside investors of \$2,225,000 and \$540,000 for the years ended December 31, 2008 and 2007, respectively, were made to the limited partnership.

As of December 31, 2008, Western Investments, Inc. owned 85.11% of Western Acquisitions, LP. As such, Western Acquisitions, LP has been consolidated into the accompanying financial statements with the 14.89% ownership by minority limited partners presented as minority interest on the accompanying consolidated balance sheet as of December 31, 2008. Western Acquisitions, LP is considered, for GAAP purposes, an investment company under the AICPA Audit and Accounting Guide *Investment Companies*. The Company has retained the specialized accounting for Western Acquisitions, LP pursuant to EITF Issue No. 85-12, *Retention of Specialized Accounting for Investment in Consolidation*. As such, marketable equity securities held by Western Acquisitions, LP are recorded at fair value in Investments in Marketable Securities, with unrealized gains and losses resulting from changes in fair value reflected in the Consolidated Statements of Operations.

As of December 31, 2008, Western Acquisitions, LP owns a total of 1,553,545 shares of The Steak n Shake Company's common stock.

Following is a summary of marketable equity securities held by Western Acquisitions, LP as of December 31, 2008 and 2007, of which all are in the United States:

|                                    | As of December 31, 2008 |              | As of December 31, 2007 |               |
|------------------------------------|-------------------------|--------------|-------------------------|---------------|
|                                    | Cost                    | Fair Value   | Cost                    | Fair Value    |
| The Steak n Shake Co.              | \$ 19,159,412           | \$ 9,243,593 | \$ 17,902,714           | \$ 15,046,851 |
| Other                              | 139,881                 | 80,737       | 138,660                 | 115,480       |
| Total marketable equity securities | \$ 19,299,293           | \$ 9,324,330 | \$ 18,041,374           | \$ 15,162,331 |

Net realized gains (losses) and net change in unrealized gains (losses) from marketable equity securities held by Western Acquisitions, LP were as follows:

|   | Year Ended<br>December 31,<br>2008 | Year Ended<br>December 31,<br>2007 |
|---|------------------------------------|------------------------------------|
| Realized gains  | \$ 83,867                          | \$ 83,867                          |
| Realized losses   | (39,852)                           | (34,994)                           |
| Net realized gains (losses) on sales of marketable securities | \$ (39,852)                        | \$ 43,873                          |

|  |    |             |    |             |
|--|----|-------------|----|-------------|
| Net unrealized gains (losses) on marketable securities held Western Acquisitions, LP | \$ | (7,095,919) | \$ | (2,739,003) |
|--|----|-------------|----|-------------|

- ***Marketable Securities held by Mustang Capital Advisors, LP***

On July 9, 2008, the Company completed an acquisition of controlling interests in Mustang Capital Advisors, LP and its general partner, Mustang Capital Management, LLC, through the Company's wholly-owned subsidiary, Western Mustang Holdings, LLC. The acquisition is accounted for as a purchase under GAAP and as a result, Mustang Capital Advisors, LP and Mustang Capital Management, LLC are consolidated into the Company's financial statements.

Western Mustang Holdings, LLC is, for GAAP purposes, an investment company under the AICPA Audit and Accounting Guide *Investment Companies*. The Company has retained the specialized accounting for Mustang Capital Advisors, LP pursuant to EITF Issue No. 85-12, *Retention of Specialized Accounting for Investment in Consolidation*. As such, marketable equity securities held by Mustang Capital Advisors, LP are recorded at fair value in Investments in Marketable Securities, with unrealized gains and losses resulting from changes in fair value reflected in the Consolidated Statements of Operations.

Table of Contents

Following is a summary of marketable equity securities held by Western Mustang Holdings, LLC as of September 30, 2008 and July 9, 2008 (date of acquisition), of which all are in the United States:

|                                    | As of December 31, 2008 |              | As of July 9, 2008 |              |
|------------------------------------|-------------------------|--------------|--------------------|--------------|
|                                    | Cost                    | Fair Value   | Cost               | Fair Value   |
| Total marketable equity securities | \$ 6,621,658            | \$ 6,656,428 | \$ 5,253,811       | \$ 5,253,811 |

Net realized gains (losses) and net change in unrealized gains (losses) from marketable equity securities held by Mustang Capital Advisors, LP from July 9, 2008 (date of acquisition) through December 31, 2008, were as follows:

|   |             |
|---|-------------|
| Realized gains  | \$ 514,793  |
| Realized losses   | (270,709)   |
| Net realized gains on sales of marketable securities                                | \$ 244,084  |
| Net unrealized losses on marketable securities held by Mustang Capital Advisors, LP | \$ (34,770) |

Table of Contents**Securities Authorized for Issuance under Equity Compensation Plans**

The following table provides information on securities authorized for issuance under our equity compensation plans as of December 31, 2008:

| <b>Plan Category</b>                                   | <b>Number of securities to be issued upon exercise of outstanding options, warrants and rights<br/>(a)</b> | <b>Weighted-average exercise price of outstanding options, warrants and rights<br/>(b)</b> | <b>Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))<br/>(c)</b> |
|--|--|--|--|
| Equity compensation plans approved by security holders | 57,000   | \$ 7.10  | 36,000   |

We have three stock option plans: the 2005 Stock Option Plan, the 2004 Non-Employee Directors Stock Option Plan, and the 1994 Incentive and Non-qualified Stock Option Plan. Both the 2005 and 1994 Plans were adopted with the approval of our stockholders. Under the 2004 Plan, our Non-Employee Directors were granted options to purchase 1,000 shares of common stock, priced at fair market value on the date of the option grant. Options were granted automatically each year on the date of the Annual Meeting of Stockholders, or in the case of new Directors, on the first business day following their election to the Board. All options were exercisable immediately upon grant. All options outstanding at December 31, 2007 are exercisable. At December 31, 2007, there were 36,000 shares available for future grants under the plans; however, on April 25, 2007, our Board of Directors elected to indefinitely suspend future grants under all plans.

**Repurchases of Common Stock**

On June 24, 2008, we announced that our Board of Directors approved the repurchase of up to 500,000 shares of our common stock commencing June 25, 2008 and through June 25, 2009. The timing, price and volume of purchases would be determined by management, based upon market conditions, relevant securities laws and other factors, either on the open market or in privately negotiated transactions. As of December 31, 2008, we had purchased 9,099 shares pursuant to this authorization and had 490,901 remaining available for repurchase. The following table sets forth additional information with respect to our repurchases of shares of common stock during the fourth quarter of 2008.

| <b>Period</b>    | <b>Total Number of Shares Purchased</b> | <b>Average Price Paid per Share</b> | <b>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</b> | <b>Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs</b> |
|------------------|---|-------------------------------------|---|---|
| 10/1/08 10/31/08 | 0                                       | N/A                                 | 0   |   |
| 11/1/08 11/30/08 | 800                                     | \$ 8.50                             | 800   |   |
| 12/1/08 12/31/08 | 8,299                                   | \$ 10.10                            | 8,299   |   |
| Total            | 9,099                                   |                                     | 9,099   | \$ 4,900,000  |



**Item 6. Selected Financial Data.**

Effective January 1, 2007, we restructured our operations into a holding company/subsidiary format whereby all of our operations are now conducted through wholly-owned subsidiaries. This restructuring is not anticipated to have any tax impact and will have no impact on our financial reporting as we will continue to report consolidated financial statements.

**Financial Data**

The following selected historical consolidated financial information for each of the years ended December 31, 2004 through 2008 has been derived from our consolidated financial statements. For additional information see Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations, included in this report. The information set forth below is qualified by reference to, and should be read in conjunction with, the consolidated financial statements and related notes included in this report.

Table of Contents

|  | 2008      | 2007      | In Thousands<br>2006 | 2005      | 2004      |
|--|-----------|-----------|----------------------|-----------|-----------|
| <b>Statement of Operations Data:</b>                       |           |           |                      |           |           |
| Total revenues   | \$ 17,204 | \$ 17,257 | \$ 17,404            | \$ 19,372 | \$ 21,708 |
| Income from restaurant and franchise operations            | 177       | 508       | 572                  | 1,405     | 1,174     |
| Income (loss) from investment activities                   | (7,744)   | (1,163)   | (105)                |           |           |
| Net income (loss)  | (6,354)   | (244)     | 274                  | 681       | 566       |
| Basic and diluted earnings (loss) per share                | \$ (2.29) | \$ (0.13) | \$ 0.23              | \$ 0.57   | \$ 0.48   |
| Shares used in computing basic earnings (loss) per share   | 2,770     | 1,905     | 1,215                | 1,189     | 1,190     |
| Shares used in computing diluted earnings (loss) per share | 2,770     | 1,905     | 1,225                | 1,190     | 1,190     |
| <b>Balance Sheet Data:</b>                                 |           |           |                      |           |           |
| Working capital surplus (deficit)                          | 3,585     | (1,609)   | 3,238                | 2,001     | 1,480     |
| Total assets   | 35,953    | 30,509    | 19,820               | 15,476    | 16,697    |
| Long-term debt, excluding current maturities               | 2,834     | 566       | 685                  | 848       | 2,698     |
| Other long-term liabilities                                | 1,208     | 89        | 464                  | 42        | 15        |
| Stockholders' equity                                       | 18,013    | 23,502    | 17,398               | 11,760    | 10,093    |
| <b>Other Financial Data:</b>                               |           |           |                      |           |           |
| Dividends declared   |           |           |                      |           |           |

**Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations****RESULTS OF OPERATIONS**

The following tables set forth the percentage relationship to total revenues, unless otherwise indicated, of certain income statement data, and certain restaurant data for the years indicated:

| Income Statement Data:   | 2008  | 2007  | 2006  |
|--|-------|-------|-------|
| <b>Revenues:</b>   |       |       |       |
| Company-operated restaurants                                     | 76.0% | 74.8% | 74.6% |
| Franchise operations   | 21.7  | 22.9  | 23.1  |
| Other  | 2.3   | 2.3   | 2.3   |
| Total revenues   | 100.0 | 100.0 | 100.0 |
| <b>Costs and expenses - restaurant and franchise operations:</b> |       |       |       |
| Company-operated restaurants - food, beverage and labor costs    | 56.9  | 53.9  | 53.4  |
| Restaurant occupancy and other                                   | 13.8  | 13.7  | 14.1  |
| Franchise operations - direct support                            | 7.6   | 6.1   | 7.1   |
| Subleased properties   | 3.2   | .5    | .4    |
| Corporate expenses   | 11.6  | 13.2  | 12.8  |
| Depreciation and amortization expense                            | 6.1   | 6.2   | 6.1   |
| Closed restaurants expense                                       |       |       |       |
| Impairment and other charges                                     |       |       | .2    |
| Gain on settlement of insurance claims                           |       |       |       |

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|  |         |        |      |
|--|---------|--------|------|
| Claims settlement and legal fees associated with lawsuit       | 1.0     | 4.3    | 1.6  |
| Total costs and expenses restaurant and franchise operations   | 100.2   | 97.9   | 95.7 |
| Equity in income (loss) of joint venture                       | 1.2     | .8     | (.9) |
| Income from restaurant and franchise operations                | 1.0     | 2.9    | 3.4  |
| Loss from investment activities                                | (45.0)  | (6.7)  | (.6) |
| Other income (expense)   | .2      | .1     | (.1) |
| Income (loss) before income tax expense and minority interests | (43.8)  | (3.7)  | 2.7  |
| Income tax expense (benefit)                                   | (3.0)   | (.2)   | 1.1  |
| Minority interests   | 3.9     | 2.0    |      |
| Net income (loss)  | (36.9)% | (1.5)% | 1.6% |

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### Table of Contents

|  | Years Ended December 31 |              |              |
|--|-------------------------|--------------|--------------|
|  | 2008                    | 2007         | 2006         |
| <b>Restaurant Data</b>   |                         |              |              |
| Percentage increase (decrease) in average sales for Company-operated restaurants | .08%                    | (0.7)%       | (2.5)%       |
| Number of Company-operated restaurants included in the average sales computation | 5                       | 5            | 5            |
| Average sales for Company-operated restaurants                                   | \$ 2,584,000            | \$ 2,582,000 | \$ 2,599,000 |
| <b>Number of Company-operated Restaurants:</b>                                   |                         |              |              |
| Beginning of period  | 5                       | 5            | 5            |
| Opened   | 1                       |              |              |
| Closed/Franchised  | 1                       |              |              |
| End of period  | 5                       | 5            | 5            |
| <b>Number of U.S. Franchised Restaurants:</b>                                    |                         |              |              |
| Beginning of period  | 116                     | 123          | 135          |
| Opened   | 4                       | 1            |              |
| Closed   | 16                      | 8            | 12           |
| End of period  | 104                     | 116          | 123          |
| <b>Number of Joint Venture Restaurants:</b>                                      |                         |              |              |
| Beginning of period  | 1                       | 1            |              |
| Opened   |                         |              | 1            |
| Closed   |                         |              |              |
| End of period  | 1                       | 1            | 1            |

### Overview

Please refer to the discussion under Item 1. Business on page 1 of this report for a detailed description of the different facets of our business.

While we have historically been principally engaged, and intend at this time to remain principally engaged, in franchising and operating restaurants, the recent investment activities could bring us within the definition of an investment company and require us to register as an investment company under the Investment Company Act of 1940. Our Board of Directors have adopted a policy requiring management to restrict the Company's operations and investment activities to avoid becoming an investment company, until and unless the Board approves otherwise. Although we do not presently intend to change our principal business, and the Board has not approved any such change, we have expanded our investment activities, and may decide in the future to register as an investment company under the Investment Company Act. Under certain circumstances, if we are successful in investment activities, then we may inadvertently fall within the definition of an investment company, in which event it may be required to register as an investment company. If we decide or we are required to register as an investment company, then we would become subject to various provisions of the Investment Company Act and the regulations adopted under such Act, which are very extensive and could adversely affect our operations.

Western Acquisitions, L.P. has an ownership interest in The Steak n Shake Company and has filed a Schedule 13D (as amended) with the SEC as a member of a group that also includes Western Investments, Inc., The Lion Fund, L.P., Biglari Capital Corp., Mr. Biglari and Philip L. Cooley, our Vice Chairman of the Board. This group collectively beneficially owned approximately 8.5 % of Steak n Shake. We initially purchased Steak n Shake shares utilizing funds from working capital and, during the third quarter ended September 30, 2007, contributed those shares to Western Acquisitions, L.P., through Western Investments, Inc. Our Board of Directors determined that seeking two positions on the Board of Directors of Steak n Shake was in the best interests of our stockholders. We engaged in a proxy solicitation to get our nominees elected and agreed to share the expenses of this effort pro rata with Western Acquisitions, L.P. and The Lion Fund, L.P. At Steak n Shake's annual meeting of stockholders held on March 7, 2008, Steak n Shake's stockholders elected Mr. Biglari and Dr. Cooley to the Board of Directors.

Western Acquisitions, L.P. is, for generally accepted accounting principles (GAAP) purposes, an investment company under the American Institute of Certified Public Accountants (AICPA) Audit and Accounting Guide *Investment Companies*. We have retained the specialized accounting for Western Acquisitions, L.P. pursuant to FITF Issue No. 85-12, *Retention of Specialized Accounting for Investments in Consolidation*. As such, marketable equity securities held by Western

Table of Contents

Acquisitions, L.P. are recorded at fair value in Investments in Marketable Securities, with unrealized gains and losses resulting from the change in fair value reflected in the Statement of Operations.

On July 9, 2008, the Company completed an acquisition of a 50.5% controlling interest in Mustang Capital Advisors, LP and a 51% controlling interest in its general partner, Mustang Capital Management, LLC, through the Company's wholly-owned subsidiary, Western Mustang Holdings, LLC. Mustang Capital Advisors, LP, a Texas limited partnership, is a registered investment advisor, and is the investment advisor to, and the general partner of Mustang Capital Partners I, LP and Mustang Capital Partners II, LP (the Funds). The Funds are private investment funds organized for the purpose of trading and investing in securities. The aggregate purchase price was \$1,245,640, which consisted of \$300,000 in cash, \$90,092 in transaction costs, and 54,563 shares of common stock issued at a per share price of \$15.68. Mustang Capital Advisors, LP managed approximately \$44 million in assets through its funds and managed accounts as of December 31, 2008. The value of the 54,563 common shares issued was determined based on the average market price of the Company's common shares over the 3-day period before and after the terms of the acquisition were agreed to and announced. The acquisition was accounted for as a purchase under GAAP (Generally Accepted Accounting Principles) and as a result, Mustang Capital Advisors, LP and Mustang Capital Management, LLC was consolidated into the Company's financial statements. As a result of the acquisition, the Company expects to diversify its holdings in marketable securities and increase the cash flow stream into the Company.

On May 13, 2008, we completed an unsolicited tender offer for shares of ITEX Corporation. A total of 864,487 shares of ITEX common stock were validly tendered. We issued 57,196 shares of common stock in exchange for ITEX shares tendered. After the completed exchange, we own 1,704,201 shares of ITEX common stock, which represents approximately 10% of ITEX's total outstanding stock.

Our common stock commenced trading on the Nasdaq Capital Market under the symbol WEST on February 25, 2008, and was previously quoted on the OTC Bulletin Board under the symbol WSZLOB.

On December 13, 2007, Western Real Estate, L.P., a newly formed Delaware limited partnership managed by Western Properties, Inc., a newly formed Delaware corporation and our wholly-owned subsidiary, purchased approximately 23 acres of real property located in Bexar County, Texas from unaffiliated third parties. Western Properties, Inc. serves as the general partner (and currently the sole partner) of Western Real Estate, L.P., which intends to operate as a private real estate investment fund. The land purchase was the only activity for 2007, and was funded solely by our investment in Western Real Estate, L.P.

On October 17, 2007, we commenced a rights offering, distributing to stockholders, at no charge, one transferable subscription right for each share of our common stock held on that date. Every two rights entitled a stockholder to purchase one share of our common stock for \$8.50 in cash. A total of 1,797,750 rights were issued entitling stockholders to purchase an aggregate of 898,875 shares. The rights offering expired on November 16, 2007 with 898,875 shares being purchased through both basic and oversubscription rights, generating total proceeds to us of approximately \$7.6 million.

On August 29, 2007, the stockholders of Friendly Ice Cream Corporation approved the previously announced agreement for that company's acquisition by an affiliate of Sun Capital Corp. We, along with Mr. Biglari, Dr. Cooley and The Lion Fund, L.P., voted in favor of the merger agreement. In accordance with the terms of the merger agreement, we received \$15.50 per share for our Friendly stock held as of August 29, 2007. We had previously been engaged in a proxy solicitation for Mr. Biglari and Dr. Cooley to be elected to the Board of Directors of Friendly's.

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In September 2006, we were served with a lawsuit filed in the Circuit Court of Pulaski County, Arkansas, captioned *Parks Land Company, LLLP, et al. v. Western Sizzlin Corporation, et al.* On February 12, 2008, this case came before the Court for trial. On February 29, 2008, the Circuit Court of Pulaski County, Arkansas entered judgment in the case captioned *Parks Land Company, et al. v. Western Sizzlin Corporation, et al.* against us in the amount of \$689,666 plus plaintiff's legal costs. We have currently added to the reserve as a result of the verdict and as of December 31, 2007 have \$900,000 accrued. Of this amount, \$275,000 had been accrued in 2006. We disagree with the result of the trial and are evaluating our options. (See Note 18 of the Notes to Consolidated Financial Statements included in Item 15 of this Form 10-K). There can be no assurance that ultimate settlement of this case will not be more than \$900,000.

Table of Contents

**2008 COMPARED TO 2007**

**Revenues**

Total revenues decreased 0.3% to \$17.2 million in 2008, from \$17.3 million in 2007. Company-operated restaurant sales increased 1.4% to \$13.1 million in 2008, from \$12.9 million in 2007. The Company opened and subsequently closed the Western Sizzlin Express concept in Tupelo, Mississippi during 2008. The four months of operation at this location generated \$165,000 in sales and experienced a pre-tax loss of \$152,000. Customer traffic for the Company-operated restaurants decreased slightly by 0.2% over 2007. Price increases were implemented at certain Company-operated restaurants in 2008 and 2007. Same store sales for 2008 experienced an overall increase 0.1% over 2007.

Franchise and other revenues decreased 5.2% to \$4.1 million in 2008, from \$4.3 million in 2007. The decrease is primarily attributable to 12 less franchised restaurants during 2008, with 16 closures and 4 new openings. The openings during 2008 were in the last several months of the year and the Company has not seen the full effect of additional royalties from these locations. Same store sales for 2008 experienced an overall decrease of 3.2% over 2007.

**Costs and Expenses Restaurant and Franchise Operations**

Cost of Company-operated restaurants, consisting primarily of food, beverage, and labor costs increased \$476,000, (5.1%) to \$9.8 million for the year ended December 31, 2008 from \$9.3 million for the year ended December 31, 2007, of which \$218,000 (2.2%) was attributable to the location in Tupelo. These costs for the year increased as a percentage of Company-operated restaurants revenue from 72.1% in 2007 and 74.8% in 2008. The increase in the costs was largely attributable to increased costs in commodities in 2008 over 2007, and the operation of the Tupelo location in 2008.

Restaurant occupancy and other, which include utilities, insurance, maintenance, rent and other such costs of the Company-operated restaurants, increased by \$14,000 (0.5%) for the year ended December 31, 2008 versus the prior year's comparable period, of which \$78,000 was attributable to Tupelo. These costs for the year decreased slightly as a percentage of Company-operated restaurant revenues for 18.3% in 2007 to 18.2% in 2008.

Cost of franchise operations direct support expense decreased \$53,000 (3.9%) to \$1.3 million for the year ended December 31, 2008 from \$1.4 million for the year ended December 31, 2007. The decreases are attributable to the Company's on-going cost control efforts.

Subleased restaurant expenses include net costs associated with subleasing former Company operations and maintenance of vacant premises. These expenses increased by \$444,000 versus the prior year's comparable period, due to increased repair costs associated with vacant properties. All sublease arrangements expire during the fourth quarter of 2008 and no further sublease expenses are anticipated.



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Unallocated corporate expenses consist of certain expenses not allocated to any business segment. These expenses include legal, accounting, stockholder relations, personnel not directly related to a segment, information systems, and other headquarter activities. These expenses increased by \$23,000 (1.2%) for the year ended December 31, 2008 versus the prior year's comparable period. These expenses have experienced overall decreases for the year 2008 due to the Company's on-going cost control efforts, with the exception of a one-time expense in 2008 of \$250,000 accrued and payable under the Company's severance agreement with its former President for the subsidiary operations of Western Sizzlin Franchise Corporation and Western Sizzlin Stores, Inc., in July 2008.

Depreciation and amortization for 2008 were slightly lower by \$22,000 than 2007.

Claims settlement and legal fees associated with a lawsuit, decreased \$561,000 versus the prior year's comparable period, due to decreases in expenses associated with a lawsuit involving leased properties. (See Note 18 of the Notes to Consolidated Financial Statements included in Item 15 of this Form 10-K).

### **Equity in income (loss) of Joint Venture**

Equity in income (loss) of joint venture increased \$42,000 versus the prior year's comparable period attributable to increased sales and profitability at the Harrisonburg, Virginia location. (See Note 19 of the Notes to Consolidated Financial Statements included in Item 15 of this Form 10-K).

Table of Contents

**Income (Loss) from Investment Activities**

Investment advisory fee income of \$240,000 resulted from the acquisition of Mustang Capital Advisors, LP as of July 9, 2008. Investment activities include net realized gains (losses) on sales of marketable securities of (\$204,000) and \$1,972,000 for the years ended December 31, 2008 and 2007, respectively. The realized gain on sale of marketable securities in 2007 was largely from the sale of the investment in Friendly Ice Cream Corporation. Net unrealized losses on marketable securities held by the limited partnerships, Western Acquisitions, LP and Mustang Capital Advisors, LP, were (\$7.1) million and (\$2.8) million for the years ended December 31, 2008 and 2007, respectively. Expenses associated with investment activities were \$984,000 and \$348,000 for the years ended December 31, 2008 and 2007, respectively. During 2008, the Steak n Shake Company reimbursed the Company \$332,750 for certain expenses associated with the proxy contest conducted by the Company during the fourth quarter of 2007 and first quarter of 2008. The increase in expenses for 2008 versus the prior year's comparable periods are attributable to expenses associated with the Steak n Shake proxy contest, the ITEX tender offer, proposed exchange offer for shares of Jack in the Box, Inc., and other investment-related activities. There were no management fees charged or collected by Western Acquisitions, LP from outside investors in 2008 or 2007. Future management fees will depend on portfolio performance.

On June 19, 2008, the Board of Directors of The Steak n Shake Company appointed Sardar Biglari as Executive Chairman of the Board, effectively immediately. On August 5, 2008, Mr. Biglari was appointed Chief Executive Officer of The Steak n Shake Company. Management believes that the restructuring efforts underway at Steak n Shake are positive steps toward rebuilding value for all of its stockholders.

**Other Income (Expense)**

Other income (expense) increased from \$11,000 in 2007 to \$11,200 in 2008. Interest expense decreased \$21,000 comparing 2008 to 2007. The decrease is due to a lower average principal outstanding balance. Interest income increased \$4,000 comparing 2008 to 2007.

**Income Tax Expense**

Income tax expense is directly affected by levels of pretax income and changes in valuation allowances on deferred tax assets. The Company's effective tax rate was (6.67%) and (7.62%) for the years ended December 31, 2008 and 2007, respectively. (See Note 10 of the Notes to Consolidated Financial Statements included in Item 15 of this Form 10-K).

**2007 COMPARED TO 2006**

**Revenues**

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Total revenues decreased 0.8% to \$17.3 million in 2007, from \$17.4 million in 2006. Company-operated restaurant sales decreased 0.6% to \$12.9 million in 2007, from \$13.0 million in 2006. Customer traffic decreased 2.2% over 2006. Price increases were implemented at certain Company-operated restaurants in 2007 and 2006.

Franchise and other revenues decreased 1.6% to \$4.3 million in 2007, from \$4.4 million in 2006. The decrease is primarily attributable to 8 less franchised restaurants during 2007. Same store sales for 2007 experienced an overall decrease of 0.87% over 2006.

### **Costs and Expenses    Restaurant and Franchise Operations**

Cost of Company-operated restaurants, consisting primarily of food, beverage, and labor costs increased \$13,000 (0.1%) to \$9.3 million for the year ended December 31, 2007 from \$9.3 million for the year ended December 31, 2006. These costs for both years stayed the same as a percentage of Company-operated restaurants revenue of 72% in 2006 and 2007. The increase in the costs was largely attributable to increased costs in commodities in 2007 over 2006.

Restaurant occupancy and other, which include utilities, insurance, maintenance, rent and other such costs of the Company-operated restaurants, decreased by \$92,500 (3.8%) for the year ended December 31, 2007 versus the prior year's comparable period. These costs for the year decreased slightly as a percentage of Company-operated restaurant revenues from 18.9% in 2006 to 18.3% in 2007.

Table of Contents

Cost of franchise operations direct support expense decreased \$184,000 (14.9%) to \$1.1 million for the year ended December 31, 2007 from \$1.2 million for the year ended December 31, 2006. The decreases are attributable to personnel reductions and targeted expense reductions during 2006.

Subleased restaurant expenses include net costs associated with subleasing former Company operations and maintenance of vacant premises. These expenses increased by \$37,000 versus the prior year's comparable period, due to increased costs associated with vacant properties. All sublease arrangements expire during the fourth of 2008 and no further sublease expenses are anticipated.

Unallocated corporate expenses consist of certain expenses not allocated to any business segment. These expenses include legal, accounting, stockholder relations, personnel not directly related to a segment, information systems, and other headquarter activities. These expenses increased by \$51,000 for the year ended December 31, 2007 versus the prior year's comparable period. The increases are attributable to additional accounting and legal expenses in 2007.

Depreciation and amortization for 2007 were comparable to 2006.

Impairment and other charges of \$46,284 in 2006 included impairments associated with subleased properties related to an expiring lease as of June 30, 2006. No such charges were experienced in 2007.

Claims settlement and legal fees associated with a lawsuit, increased \$452,000 versus the prior year's comparable period, due to increases in accrual of loss contingency associated with a lawsuit involving leased properties. (See Note 18 of the Notes to Consolidated Financial Statements included in Item 15 of this Form 10-K).

**Equity in income (loss) of Joint Venture**

Equity in income (loss) of joint venture increased \$318,000 versus the prior year's comparable period, due to losses incurred in 2006 of \$161,000 associated with the cost of opening the restaurant on December 14, 2006. (See Note 19 of the Notes to Consolidated Financial Statements included in Item 15 of this Form 10-K).

**Income (Loss) from Investment Activities**

Investment activities include net realized gains on sales of marketable securities of \$2 million and net unrealized losses on marketable securities held by limited partnership, Western Acquisitions, L.P., of \$2.8 million. Expenses associated with investment activities were \$348,000 and \$105,000 for the years ended December 31, 2007 and 2006, respectively. (See Note 6 of the Notes to Consolidated Financial Statements included in Item 15 of this Form 10-K).

The increase in expenses for 2007 versus the prior year's comparable period is attributable to expenses associated with Steak n Shake proxy during 2007. There were no management fees charged or collected by the limited partnership in 2007. Future management fees will depend on portfolio performance and the extent of outside investors.

**Other Income (Expense)**

Other income (expense) increased from (\$7,000) in 2006 to \$12,000 in 2007. Interest expense decreased \$53,000 (33.4%) comparing 2007 to 2006. The decrease is due to a lower average principal outstanding balance. Loss on early extinguishment of long-term debt of \$92,535 associated with payoff of certain loans was recorded in 2006. Interest income increased \$37,000 comparing 2007 to 2006. Included in 2006 is termination fee income of \$163,000 associated with a negotiated settlement of certain franchise agreements.

**Income Tax Expense**

Income tax expense is directly affected by levels of pretax income and changes in valuation allowances on deferred tax assets. The Company's effective tax rate was (7.62%) and 40.4% for the years ended December 31, 2007 and 2006, respectively. (See Note 10 of the Notes to Consolidated Financial Statements included in Item 15 of this Form 10-K).

Table of Contents

**LIQUIDITY AND CAPITAL RESOURCES**

**Cash and Cash Equivalents**

As of December 31, 2008, we had \$331,000 of cash and cash equivalents as compared to \$727,000 as of December 31, 2007. The decrease in cash and cash equivalents was largely attributable to additional investments and related expenses of marketable securities in 2008.

**Investment of Available Capital**

Our cash flows have exceeded working capital, financing and capital investment requirements. Management expects that our cash flows will continue to exceed our operating cash needs for the foreseeable future. We regularly evaluate how best to use available capital to increase stockholder value. We may pursue investments in the form of acquisitions, joint ventures and partnerships where we believe attractive returns can be obtained. Further, we may determine under certain market conditions that available capital is best utilized to fund investments that we believe offer attractive returns, whether or not related to our ongoing business activities.

As previously disclosed, our Board of Directors has delegated authority to direct investment of surplus cash to our Chairman and Chief Executive Officer, Sardar Biglari, subject to Board reporting requirements and various limitations that have been or may be from time to time adopted by the Board of Directors. We are using, and may in the future use, a portion of its available capital to invest in other securities. These investments may include significant and highly concentrated direct investments with respect to the equity securities of public companies. Any such investments will involve risks, and stockholders should recognize that our balance sheet may change depending on the extent of excess funds and the timing, magnitude and performance of such investments. Furthermore, such investments could be subject to volatility that may affect both the recorded value of the investments as well as our periodic earnings and liquidity. See Risk Factors, page 6.

**Operating Activities and Cash Flows**

We generated (used) approximately \$(1.3) million, \$(9.5) million, and \$1.8 million in operating cash flows for the years ended December 31, 2008, 2007 and 2006, respectively. Our primary source of operating cash flows is the operating profits generated from Company restaurant and franchise operations. Adjustments to reconcile net income (loss) to net cash provided by restaurant and franchise activities were approximately \$977,000, \$2.6 million and \$1.5 million for the years ended December 31, 2008, 2007 and 2006, respectively. Adjustments to reconcile net income (loss) to net cash provided by (used in) investment activities were approximately \$4 million for year ended December 31, 2008, \$(11.9) for the year ended December 31, 2007, with no such activity in 2006.

**Investing Activities**

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Our investing activities on our statements of cash flows primarily represent cash received and paid related to our operating properties. Prior to 2007, we considered purchases and sales of marketable securities to be investing activities; however, during 2007 with the expanded investment activities of the Company, and more specifically the organization of Western Acquisitions L.P. and the investment of minority interests, we began to consider such activities to be operating activities of the Company. This presentation is consistent with the guidance in the AICPA's Audit and Accounting Guide, *Investment Companies*.

During the year ended December 31, 2008, we spent approximately \$34,000 on capital expenditures on Company restaurants compared to \$35,000 and \$492,000 during the equivalent period in the year ended December 31, 2007 and 2006, respectively. Capital expenditures for 2006 included the remodel of two Company-operated stores in Northern Virginia. A total of \$803,000 has been spent on these two remodels since 2005. Also during 2007, land was purchased for investment purposes for \$3.7 million. Offsetting uses of cash for investing activities were proceeds from fire casualties of \$785,000 for the year ended December 31, 2006. Also included in investing activities for 2006 are proceeds of \$300,000 from the sale of land in Lawrenceville, Georgia.

### **Financing Activities**

We made payments of long-term debt of \$119,000, \$163,000 and \$1.5 million for the years ended December 31, 2008, 2007 and 2006, respectively. During 2008, there were proceeds from issuance of long-term debt of \$2.6 million offset by payment of \$2 million on line of credit borrowings. Also during 2008, \$165,000 was received from exercise of stock

Table of Contents

options, \$540,000 from capital contributions from minority interests in limited partnership, offset by \$91,000 on purchases of treasury stock. Proceeds of \$2 million were received from a line of credit in 2007. Also during 2007 and 2006, financing activities included cash received from rights offerings of \$7.6 million and \$4.2 million, respectively, offset by costs of the rights offerings of \$97,000 and \$123,000, respectively, and cash received from exercise of stock options of \$85,000 and \$28,000, respectively.

**Liquidity**

Our primary sources of liquidity are cash generated from operations and, if needed, borrowings under our existing line of credit. Subsequent to year end, in January 2009, we borrowed \$350,000 from the line of credit for working capital purposes. We continually review available financing alternatives. In addition, we may consider, on an opportunistic basis, strategic decisions to create value and improve operational performance.

Total capital expenditures for 2009 are presently expected to approximate \$50,000, and will be primarily used for necessary replacement of certain restaurant equipment.

We believe that cash flows generated by operations will be adequate to fund our restaurant and franchise operations and required debt repayments for at least the next twelve months. In addition, we have taken aggressive action during the first quarter of 2009 to further reduce general and administrative expenses to augment our cash flows.

The money market investments of \$3.7 million are funds held by Mustang Capital Advisors, LP for investment purposes, and are not available for use in operations. (See Note 10 of the Notes to Consolidated Financial Statements included in Item 15 of this Form 10-K).

**INVESTMENT IN UNCONSOLIDATED JOINT VENTURE**

We are a partner in a 50/50 joint venture with a franchisee, for a new restaurant in Harrisonburg, Virginia. During October 2005, the joint venture entered into a loan agreement for \$3.05 million and we guaranteed 50% of the loan obligation. We estimate the fair value of the guarantee to be approximately \$30,000 and recorded the amount in other long-term liabilities and in investments in unconsolidated joint venture on the accompanying balance sheet at December 31, 2008. The term of the guarantee extends through July 1, 2026 and we would be required to perform under the guarantee should the joint venture not be able to meet its scheduled principal and interest payments. Pursuant to the joint venture agreement, a cash contribution of \$300,000 from each 50/50 partner was also made at the closing of this financing. We are accounting for the investment using the equity method and the Company's share of the net income (loss) for the joint venture of \$199,699, \$157,515 and (\$160,902) for the years ended December 31, 2008, 2007 and 2006, respectively, is included in equity in earnings of unconsolidated joint venture. The restaurant opened for business on December 14, 2006.

**Financial Data**



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The following is selected financial information for the joint venture at December 31, 2008 and 2007:

|   | Year Ended<br>December 31,<br>2008<br>(unaudited) | Year Ended<br>December 31,<br>2007<br>(unaudited) |
|---|---|---|
| <b>Statement of Operations Data:</b>                            |   |   |
| Total revenues  | \$ 4,890,392                                      | \$ 4,960,695                                      |
| Cost of food  | 2,007,969   | 2,110,602   |
| Payroll expense   | 1,445,213   | 1,502,077   |
| Marketing and smallware expense                                 | 189,741   | 204,374   |
| General and administrative                                      | 456,926   | 404,106   |
| Depreciation and amortization                                   | 203,341   | 200,869   |
| Interest  | 212,646   | 223,574   |
| Other income (expense)  | (24,842)  | 62  |
| Net Income (loss)   | 399,398   | 315,031   |
| <b>Balance Sheet Data:</b>                                      |   |   |
| Cash  | \$ 257,490  | \$ 332,740  |
| Current receivables   | 2,378   | 7,557   |
| Prepaid expenses  | 11,364  | 3,171   |
| Inventory   | 18,035  | 16,384  |
| Land, leasehold improvements, and construction in progress, net | 3,566,081   | 3,750,051   |
| Loan costs, net   | 10,420  | 11,946  |
| Total assets  | 3,865,970   | 4,122,050   |
| Loan payable  | 2,951,460   | 3,138,580   |
| Accounts payable and accrued expenses                           | 365,120   | 433,479   |
| Members' equity   | 549,389   | 549,991   |

Table of Contents**CONTRACTUAL OBLIGATIONS AND COMMITMENTS**

The table below sets forth a summary of our contractual obligations and commitments that will impact our future liquidity:

| Contractual Obligations and Commitments | Years Ending December 31, |              |            |            |            |              | Totals       |
|---|---------------------------|--------------|------------|------------|------------|--------------|--------------|
|   | 2009                      | 2010         | 2011       | 2012       | 2013       | Thereafter   |              |
| Long-term debt                          | \$ 373,925                | \$ 2,498,483 | \$ 134,189 | \$ 148,342 | 52,573     | \$ 0         | \$ 3,207,512 |
| Operating leases, net (1)               | 634,425                   | 623,880      | 367,611    | 399,171    | 405,086    | 766,908      | 3,197,081    |
| Interest expense (2)                    | 97,041                    | 40,459       | 27,655     | 13,501     | 1,101      | 0            | 179,757      |
| Tax obligations (3)                     | 7,552                     |              |            |            |            |              | 7,552        |
| Other long-term liabilities (4)         |                           |              |            |            |            | 316,333      | 316,333      |
| Totals                                  | \$ 1,112,943              | \$ 3,162,822 | \$ 529,455 | \$ 561,014 | \$ 458,760 | \$ 1,083,241 | \$ 6,908,235 |

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- (1) Gross operating lease commitments for the periods above aggregate to approximately \$3.2 million. (See Note 9 of the Notes to Consolidated Financial Statements included in Item 15 of this Form 10-K).
  - (2) Reflects future interest payments through scheduled maturity dates based upon average borrowing rates, outstanding debt balances and scheduled principal payments on long-term debt.
  - (3) Reflects recognized liabilities for uncertain tax positions under the provisions of FIN 48. (See Note 10 of the Notes to Consolidated Financial Statements included in Item 15 of this Form 10-K).
  - (4) Reflects the cash portion of the Company's obligation to purchase the ownership percentage of the minority interest holder of Mustang Capital Advisors, LP (see Note 2 of the Notes to Consolidated Financial Statements included in Item 15 of this Form 10-K). The timing of the settlement of the obligation is not determinable as of December 31, 2008.

**Bank Line of Credit**

At December 31, 2008 there were no amounts outstanding on a \$2 million line of credit with a bank. The line is payable on demand, subject to annual renewal by the bank with an automatic renewal at May 31, 2009, interest rate of prime minus 0.5% and collateralized by accounts receivable and the assignment of franchise royalty contracts. Subsequent to year end, the Company borrowed \$350,000 from the line of credit for working capital purposes. The average amount of outstanding borrowings during 2008 and 2007 approximated \$182,000 and \$83,000, respectively.

**Operating Leases**

Gross operating lease commitments for the periods above aggregate to approximately \$3.2 million.

**Revenue Recognition**

Revenue at Company-operated restaurants is recognized as customers pay for products at the time of sale. Franchise operations revenue consists of royalties and franchise fees. Royalties are recognized in the month earned at estimated realizable amounts. Franchise fees are recognized when the related services have been performed, which is generally upon opening of the store, and do not include significant contingencies. Other revenues consist of sales of seasonings and marinades to franchisees and are recognized when the products are shipped to the franchisee. In the future, the Company may earn management fees based on a percentage of assets managed and held by Western Acquisitions, LP and on the performance of assets under management, but no such fees were earned in 2007 and 2008. Investment advisory fee income was earned in 2008 through the acquisition of controlling interests in Mustang Capital Advisors, LP and its general partner, Mustang Capital Management, LLC.

#### **CRITICAL ACCOUNTING ESTIMATES**

Our discussion and analysis of financial condition and results of operations is based on the consolidated financial statements and accompanying notes that have been prepared in accordance with United States generally accepted accounting

Table of Contents

principles. The preparation of these consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Note 1 to the consolidated financial statements provides a summary of our significant accounting policies. The following are areas requiring significant judgments and estimates due to uncertainties as of the reporting date: trade accounts and notes receivables and the allowance for doubtful accounts, investments, determination of useful lives and the evaluation of any impairment of long-lived assets (including franchise royalty contracts, investment management contracts and limited partnership agreements, goodwill and property and equipment), commitments and contingencies, and income taxes.

Application of the critical accounting policies discussed below requires significant judgments by management, often as a result of the need to make estimates of matters that are inherently uncertain. If actual results were to differ materially from the estimates made, the reported results could be materially affected. We are not currently aware of any reasonably likely events or circumstance that would result in materially different results. Our senior management has reviewed the critical accounting policies and estimates and the Management's Discussion and Analysis regarding them with the Audit and Finance Committee of the Board of Directors.

*Trade Accounts and Notes Receivable and the Allowance for Doubtful Accounts*

We collect royalties, and in some cases rent, from franchisees. We view trade accounts and notes receivable and the related allowance for doubtful accounts as a critical accounting estimate since the allowance for doubtful accounts is based on judgments and estimates concerning the likelihood that individual franchisees will pay the amounts included as receivables from them. In determining the amount of allowance for doubtful accounts to be recorded for individual franchisees, we consider the age of the receivable, the financial stability of the franchisee, discussions that may have occurred with the franchisee and our judgment as to the overall collectability of the receivable from the franchisee. In addition, we establish an allowance for all other receivables for which no specific allowances are deemed necessary. If average sales or the financial health of franchisees were to deteriorate, we might have to increase the allowance for doubtful accounts.

*Investments*

Marketable equity securities held by Western Sizzlin Corporation are held for an indefinite period and thus are classified as available-for-sale. Available-for-sale securities are recorded at fair value in Investments in Marketable Securities on the consolidated balance sheet, with the change in fair value during the period excluded from earnings and recorded net of tax as a component of other comprehensive income (loss). Fair value is determined through the use of quoted market values on national exchanges. Management has also evaluated unrealized losses on marketable equity securities held by Western Sizzlin Corporation (the holding company) to determine if such impairment is other than temporary, and has concluded that they are temporary as of December 31, 2008 and that the Company has the ability and the intent to hold such securities until they recover their value. Factors considered in judging whether an impairment is other than temporary include the financial condition, business prospects and creditworthiness of issuer, the length of time fair value has been less than cost, the relative amount of decline, and our ability and intent to hold the investment until fair value recovers. In the event management concludes in future periods that such losses are other than temporary, a charge will be taken in the statement of operations to reduce the cost of the securities to their fair value.

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Western Acquisitions, LP and Mustang Capital Advisors, LP are, for GAAP purposes, investment companies under the AICPA Audit and Accounting Guide *Investment Companies*. The Company has retained the specialized accounting for Western Acquisitions, LP and Mustang Capital Advisors, LP pursuant to EITF Issue No. 85-12, *Retention of Specialized Accounting for Investments in Consolidation*. As such, marketable equity securities held by Western Acquisitions, LP and Mustang Capital Advisors, LP are recorded at fair value in Investments in Marketable Securities, with unrealized gains and losses resulting from the change in fair value reflected in the Statement of Operations. Fair value is primarily determined through the use of quoted market values on national exchanges. (See Note 13 of the Notes to Consolidated Financial Statements included in Item 15 of this Form 10-K).

### *Long-lived Assets, Franchise Royalty Contracts and Goodwill*

We view the determination of the carrying value of long-lived assets, franchise royalty contracts, goodwill, investment management contracts and limited partnership agreements as critical accounting estimates since we must evaluate the estimated economic useful life in order to properly depreciate or amortize our long-lived assets, franchise royalty contracts, and investment management contracts and limited partnership agreements and because we must consider if the value of any of our long-lived assets have been impaired, requiring adjustments to the carrying value. Goodwill is not subject to amortization but is subject to at least an annual impairment test to determine if the carrying amount exceeds its fair value.

Table of Contents

Economic useful life is the duration of time the asset is expected to be productively employed, which may be less than its physical life. The estimated economic useful lives of long-lived assets are monitored to determine if they continue to be appropriate in light of changes in business circumstances.

We must also consider whether long-lived assets (including property and equipment and intangible assets) have been impaired to the extent that we must recognize a loss on such impairment, including goodwill impairment. We evaluate our long-lived assets for impairment at the restaurant, franchise and investment company levels on an annual basis or whenever changes or events indicate that the carrying value may not be recoverable. We assess impairment of each level of assets based on the operating cash flows of the restaurant, franchise and investment operations and our plans for each restaurant unit, franchisee contract, or investments. Generally, all units with negative cash flows from operations for the most recent twelve months at each quarter end are included in our assessment. In performing our assessment, we must make assumptions regarding estimated future cash flows, including estimated proceeds from similar asset sales, and other factors to determine both the recoverability and the estimated fair value of the respective assets. If the long-lived assets of a restaurant are not recoverable based upon estimated future, undiscounted cash flows, we write the assets down to their fair value. If these estimates or their related assumptions change in the future, we may be required to record additional impairment charges. In 2006, we recorded impairment of \$46,284 related to leasehold improvements for which no future cash flows are anticipated associated with subleased properties. In 2008 and 2007 there were no such expenses (see Notes 15 and 16 of the Notes to Consolidated Financial Statements included in Item 15 of this Form 10-K).

We evaluate goodwill for impairment on an annual basis during the fourth quarter of each year, or more frequently if an event occurs that triggers an interim impairment test. We determine the fair values of our reporting units using the discounted cash flow method. This method uses projections of cash flows from each of the reporting units. Several of the key assumptions in estimating future cash flows include periods of operations, projections of operating profits, and weighted average cost of capital. These assumptions are derived from our internal budgets and consideration of available market data. The factors which contribute the greatest variability in our estimates of fair values are the weighted average cost of capital and estimates of future operating profits. We currently have goodwill of \$770,000 related to our franchising reporting unit, \$3.5 million allocated to our restaurant reporting unit, and \$685,000 related to our investment activities reporting unit.

*Purchase Obligation*

As stated in Note 2 of the Notes to the Consolidated Financial Statements, in connection with our acquisition of a controlling interest in Mustang Capital Advisors, LP and Mustang Capital Management, LLC, we are obligated to purchase the minority interest holders ownership percentage upon the occurrence of certain events. The purchase obligation will ultimately be settled in cash and shares of the Company's common stock. We are accounting for this purchase obligation pursuant to Statement of Financial Accounting Standards No. 150 (As Amended) - *Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity*.

*Commitments and Contingencies*

We view accounting for contingencies as a critical accounting estimate since loss contingencies arising from claims, assessments, litigation, fines and penalties and other sources require judgment as to any probable liabilities incurred. Actual results could differ from the expected results determined based on such estimates.

*Income Taxes*

We record valuation allowances against deferred tax assets, when necessary, in accordance with SFAS No. 109, *Accounting for Income Taxes*. Realization of deferred tax assets is dependent on future taxable earnings and is therefore uncertain. We assess the likelihood that deferred tax assets in each of the jurisdictions in which we operate will be recovered from future taxable income. Deferred tax assets do not include future tax benefits that we deem likely not to be realized.

In July 2006, the FASB issued FASB Interpretation Number 48, *Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement No. 109*, ( FIN 48 ). FIN 48 prescribes a recognition threshold and measurement attributes for the financial statement recognition and measurement of a tax position taken in a tax return. We must determine whether it is more-likely-than-not that a tax position will be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. Once it is determined that a position meets the more-likely-than-not recognition threshold, the position is measured to determine the amount of benefit to recognize in the financial statements. FIN 48 applies to all tax positions related to income taxes subject to FASB Statement No. 109.

Table of Contents

*Accounting for Income Taxes.*

For additional information regarding the adoption of FIN 48, see Note 10 of the Notes to Consolidated Financial Statements included in Item 15 of this Form 10-K).

**IMPACT OF INFLATION**

The impact of inflation on the costs of food and beverage products, labor and real estate can affect our operations. Over the past few years, inflation has had a lesser impact on our operations due to the lower rates of inflation in the nation's economy and economic conditions in our market areas. We believe that we have historically been able to pass on increased costs through certain selected menu price increases and have offset increased costs by increased productivity and purchasing efficiencies, but there can be no assurance that we will be able to do so in the future. We anticipate that the average cost of restaurant real estate leases and construction cost could increase in the future which could affect our ability to expand. In addition, mandated health care or additional increases in the federal or state minimum wages could significantly increase our costs of doing business.

**RECENTLY ISSUED ACCOUNTING STANDARDS**

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157 ( SFAS 157 ), *Fair Value Measurements*. SFAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. SFAS 157 applies under other accounting pronouncements that require or permit fair value measurements, the FASB having previously concluded in those accounting pronouncements that fair value is the relevant measurement attribute. Accordingly, SFAS 157 does not require any new fair value measurements. Effective January 1, 2008, the Company adopted the provisions of SFAS 157 for financial assets and liabilities. The Company applied the provisions of FSP FAS 157-2, *Effective Date of FASB Statement 157*, which defers the provisions of SFAS 157 for nonfinancial assets and liabilities to the first fiscal period beginning after November 28, 2008. The nonfinancial assets for which we have deferred adoption include goodwill and long-lived assets. The Company is required to adopt SFAS 157 for nonfinancial assets and liabilities that are not measured at fair value on a recurring basis in the first quarter of 2009 and is still evaluating the impact on the Consolidated Financial Statements.

In May 2007, the FASB issued FASB Staff Position No. FIN 46(R)-7, *Application of FASB Interpretation No. 46(R) to Investment Companies* ( FSP FIN 46(R)-7 ) which provides clarification on the applicability of FIN 46(R), as revised, to the accounting for investments by entities that apply the accounting guidance in the AICPA Audit and Accounting Guide, *Investment Companies*. FSP FIN 46(R)-7 amends FIN 46(R), as revised, to make permanent the temporary deferral of the application of FIN 46(R), as revised, to entities within the scope of the guide under Statement of Position ( SOP ) No. 07-1, *Clarification of the Scope of the Audit and Accounting Guide Investment Companies and Accounting by Parent Companies and Equity Method Investors for Investments in Investment Companies* ( SOP 07-1 ). FSP FIN 46(R)-7 is effective upon adoption of SOP 07-1. The adoption of FSP FIN 46(R)-7 is not expected to have a material impact on the Company.

SOP 07-1, issued in June 2007, addresses whether the accounting principles of the AICPA Audit and Accounting Guide *Investment Companies* may be applied to an entity by clarifying the definition of an investment company and whether those accounting principles may be retained by a parent company in consolidation or by an investor in the application of the equity method of accounting. SOP 07-1, as originally issued, was to be effective for fiscal years beginning on or after December 15, 2007 with earlier adoption encouraged. In February 2008, the FASB issued FSP



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SOP 07-1-1, *Effective Date of AICPA Statement of Position 07-01*, to indefinitely defer the effective date of SOP 07-01.

The Company's majority-owned subsidiaries, Western Acquisitions, LP and Mustang Capital Advisors, LP, are investment companies as currently defined in the AICPA Audit and Accounting Guide, *Investment Companies*. The Company has retained the specialized accounting for Western Acquisitions, LP and Mustang Capital Advisors, LP pursuant to EITF 85-12, *Retention of Specialized Accounting for Investments in Consolidation*. As such, marketable equity securities held by Western Acquisitions, LP and Mustang Capital Advisors, LP are recorded at fair value in Investments in Marketable Securities in the consolidated financial statements, with unrealized gains and losses resulting from the change in fair value reflected in the Consolidated Statement of Operations. The Company intends to monitor future developments associated with this Statement in order to assess the impact, if any, which may result.

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 141(R), *Business Combinations* ( SFAS 141R ), and Statement of Financial Accounting Standard No. 160, *Noncontrolling Interest in Consolidated Financial Statements, an amendment of ARB No. 51* ( SFAS 160 ). These new standards will significantly

Table of Contents

change the accounting for and reporting for business combinations and noncontrolling (minority) interests in consolidated financial statements. SFAS 141(R) and SFAS 160 are required to be adopted simultaneously and are effective for the first annual reporting period beginning on or after December 15, 2008. These standards will impact the Company if it completes an acquisition or obtains additional minority interests after the effective date. SFAS 160 amends ARB 51 to establish accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. It clarifies that a noncontrolling interest in a subsidiary, which is sometimes referred to as minority interest, is an ownership interest in the consolidated entity that should be reported as equity in consolidated financial statements. Among other requirements, this statement requires that the consolidated net income attributable to the parent and the noncontrolling interest be clearly identified and presented on the face of the consolidated income statement. SFAS 160 is effective for the first fiscal period beginning on or after December 15, 2008. The Company is required to adopt SFAS 160 in the first quarter of 2009 and is currently evaluating the impact of adopting SFAS 160 on its Consolidated Financial Statements.

In March 2008, the FASB issued Statement of Financial Accounting Standards SFAS No. 161 ( SFAS 161 ), *Disclosures about Derivative Instruments and Hedging Activities - An Amendment of FASB Statement No. 133*. SFAS applies to all derivative instruments and related hedged items accounted for under SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*. It requires entities to provide greater transparency about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under SFAS 133 and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity's financial position, results of operations, and cash flows. SFAS 161 is effective for fiscal years and interim periods beginning after November 15, 2008. This standard is not expected to have a material impact on the Company's consolidated financial statements.

In April 2008, the FASB issued FASB Staff Position No. 142-3, *Determination of the Useful Life of Intangible Assets* ( FSP 142-3 ). FSP 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under FASB Statement No. 142, *Goodwill and Other Intangible Assets* and requires enhanced related disclosures. FSP 142-3 must be applied prospectively to all intangible assets acquired subsequent to fiscal years beginning after December 15, 2008. The Company is currently evaluating the impact that FSP 142-3 will have on its consolidated financial statements.

In October 2008, the FASB issued FSP FAS No. 157-3, *Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active* (FSP 157-3). The FSP clarifies the application of FAS No. 157, *Fair Value Measurements*, when the market for a financial asset is not active. The FSP was effective upon issuance, including reporting for prior periods for which financial statements have not been issued. The adoption of the FSP for reporting as of September 30, 2008, was given consideration when making estimates of Level 2 fair value estimates, as disclosed in Note 2.

**Item 7A. Quantitative and Qualitative Disclosures about Market Risk**

As of December 31, 2008, our financial instruments are not exposed to significant market risk due to foreign currency exchange risk or commodity price risk. However, we are exposed to market risk related to changes in market prices of our marketable securities, interest rates related to certain debt obligations, and commodity risks.

**Market Price Risk**

Our marketable securities are currently concentrated in a few investments. A change in market prices exposes us to market risk related to the investments in marketable securities. As of December 31, 2008, we held \$17 million in marketable securities. A hypothetical 10% decline in the market value of those securities would result in an additional \$1.7 million unrealized losses and a corresponding decline in their fair values at December 31, 2008. This hypothetical decline would not affect the cash flows unless the securities were disposed of.

#### **Interest Rate Risk**

We have exposure to interest rate risk related to certain instruments entered into for other than trading purposes. Specifically, borrowings under the loan associated with the Texas land purchase and revolving credit facility bear interest at variable rates based on the prime rate minus .5%. The nature and amount of borrowings under the credit facility may vary as a result of future business requirements, market conditions and other factors.

#### **Commodity Price Risk**

We purchase certain food products such as beef, poultry, pork, eggs and coffee, and utilities such as gas and electricity, which are affected by commodity pricing and are, therefore, subject to price volatility caused by weather,

Table of Contents

production problems, delivery difficulties and other factors that are outside of our control and which are generally unpredictable. Changes in commodity prices affect us and competitors generally and often simultaneously. In general, we purchase food products and utilities based upon market prices established with vendors. Although many of the items purchased are subject to changes in commodity prices, the majority of our purchasing arrangements are structured to contain features that minimize price volatility by establishing fixed pricing and/or price ceilings and floors. We use these types of purchase arrangements to control costs as an alternative to using financial instruments to hedge commodity prices. We have determined that our purchasing agreements do not qualify as derivative financial instruments or contain embedded derivative instruments. In many cases, we believe that we will be able to address commodity cost increases which are significant and appear to be long-term in nature by adjusting our menu pricing or changing our product delivery strategy. However, competitive circumstances could limit such actions and, in those circumstances, increases in commodity prices could lower its margins. Because of the often short-term nature of commodity pricing aberrations and our ability to change menu pricing or product delivery strategies in response to commodity price increases, we believe that the impact of commodity price risk is not significant.

We have established a policy to identify, control and manage market risks which may arise from changes in interest rates, commodity prices and other relevant rates and prices.

The table below provides information about our debt obligations that are sensitive to changes in interest rates. The table presents principal cash flows and related weighted average interest rates by expected maturity dates.

Debt obligations held for other than trading purposes at December 31, 2008 (dollars in thousands):

**EXPECTED MATURITY DATE**

|                           | 2009   | 2010   | 2011   | 2012   | 2013   | Thereafter | Total  | Estimated Fair Value |
|---------------------------|--------|--------|--------|--------|--------|------------|--------|----------------------|
| Long-term debt Fixed Rate | \$ 110 | \$ 121 | \$ 134 | \$ 148 | \$ 53  | \$ 0       | \$ 586 | \$ 653               |
| Average Interest Rate     | 10.07% | 10.07% | 10.07% | 10.07% | 10.07% | 0%         | 10.07% |                      |

**Item 8. Consolidated Financial Statements and Supplementary Data**

The information required by this item is set forth on pages F-1 through F-29 of this report.

**Item 9. Changes In and Disagreements with Accountants on Accounting and Financial Disclosure**

None.

**Item 9A (T). Controls and Procedures**

**(a) *Disclosure Controls and Procedures:***

We maintain disclosure controls and procedures, as such term is defined in Rule 13a-15(e) and Rule 15d-15(e) under the Securities Exchange Act of 1934 (the Exchange Act), that are designed to ensure that information required to be disclosed in reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms, and that such information is collected and communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating our disclosure controls and procedures, management recognized that no matter how well conceived and operated, disclosure controls and procedures can provide only reasonable, not absolute, assurance that the objectives of the disclosure controls and procedures are met. Based on our evaluation as of December 31, 2008, we concluded that the disclosure controls and procedures were effective in providing reasonable assurance that the information required to be disclosed in the Annual Report on Form 10-K was summarized and reported within the time periods specified in the Securities and Exchange Commission's rules.

Table of Contents

**(b) Management's Report on Internal Control Over Financial Reporting**

Management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) under the Securities Exchange Act of 1934.

Our internal control over financial reporting is a process designed by, or under the supervision of, the our Chief Executive Officer and Chief Financial Officer, and effected by our Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America. Our internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with general accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of management and board of directors; and, (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of our assets that could have a material effect on the financial statements.

Because of our inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

Management, under the supervision and the participation of our Chief Executive Officer and Chief Financial Officer, assessed the effectiveness of our internal control over financial reporting as of December 31, 2008. In making this assessment, management used the criteria set forth in *Internal Control - Integrated Framework*, issued by the Committee of Sponsoring Organizations (COSO) of the Treadway Commission.

Based on management's assessment, our Chief Executive Officer and our Chief Financial Officer have concluded that our internal controls over financial reporting were effective as of December 31, 2008.

This Annual Report on Form 10-K does not include an attestation report of our independent registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by our independent registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit us to provide only management's report in this Annual Report.

**(c) Changes in Internal Control Over Financial Reporting**

As of the quarter ended December 31, 2008, there were no changes in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) that have materially affected, or are reasonably likely to affect, our internal control over financial

reporting.

**Item 9B. Other Information**

None.

Table of Contents

**Part III**

**Item 10. Directors, Executive Officers and Corporate Governance**

The information required by this item is incorporated herein by reference to our Definitive Proxy Statement for the 2009 Annual Meeting of Stockholders expected to be filed on or before April 30, 2009.

**Item 11. Executive Compensation**

The information required by this item is incorporated herein by reference to our Definitive Proxy Statement for the 2009 Annual Meeting of Stockholders expected to be filed on or before April 30, 2009.

**Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters**

The information required by this item is incorporated herein by reference to our Definitive Proxy Statement for the 2009 Annual Meeting of Stockholders expected to be filed on or before April 30, 2009.

**Item 13. Certain Relationships and Related Transactions**

The information required by this item is incorporated herein by reference to our Definitive Proxy Statement for the 2009 Annual Meeting of Stockholders expected to be filed on or before April 30, 2009.

**Item 14. Principal Accountant Fees and Services**

The information required by this item is incorporated herein by reference to our Definitive Proxy Statement for the 2009 Annual Meeting of Stockholders expected to be filed on or before April 30, 2009.

**Part IV**



**Item 15. Exhibits and Financial Statement Schedules**

- (a) Financial Statements: See our Consolidated Financial Statements filed under Item 8.
  
- (b) Exhibits required by Item 601 of Regulation S-K: See Exhibit Index on pages 33 and 34.

Table of Contents

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15 (d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

WESTERN SIZZLIN CORPORATION

Dated: March 31, 2009 By: /s/ Sardar Biglari  
Sardar Biglari  
President and Chief Executive Officer

Dated: March 31, 2009 By: /s/ Robyn B. Mabe  
Robyn B. Mabe  
Vice President and Chief Financial Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

| Signature                                  | Title                 | Date           |
|--|-----------------------|----------------|
| /s/ Sardar Biglari<br>Sardar Biglari       | Chairman of the Board | March 31, 2009 |
| /s/ Philip L. Cooley<br>Philip L. Cooley   | Vice Chairman         | March 31, 2009 |
| /s/ Titus W. Greene<br>Titus W. Greene     | Director              | March 31, 2009 |
| /s/ Jonathan Dash<br>Jonathan Dash         | Director              | March 31, 2009 |
| /s/ Kenneth R. Cooper<br>Kenneth R. Cooper | Director              | March 31, 2009 |
| /s/ Martin S. Fridson<br>Martin S. Fridson | Director              | March 31, 2009 |

Table of Contents

**Exhibit Index**

- 2.0 Plan of Amendment and Merger dated April 30, 1999, between Austins Steaks and Saloon, Inc. and The Western Sizzlin Corporation. (incorporated by reference to the specific exhibit to the Form S-4 Registration Statement, as filed with the Securities and Exchange Commission on May 13, 1999, Registration No. 333- 78375)
- 3.1.1 Restated Certificate of Incorporation dated December 1, 1995
- 3.1.2 Certificate of Amendment to Certificate of Incorporation dated September 30, 2003
- 3.1.3 Amendment to Certificate of Incorporation dated June 22, 1999
- 3.1.4 Certificate of Amendment to Restated Certificate of Incorporation dated July 31, 2006
- 3.1.5 Certificate of Amendment to Restated Certificate of Incorporation dated July 2, 2007
- 3.1.6 Certificate of Amendment to Restated Certificate of Incorporation dated August 11, 2008
- 3.2 Restated Bylaws of the Corporation
- 3.2.1 Amendment No. 1 to Restated Bylaws
- 3.2.2 Amendment No. 2 to Restated Bylaws
- 3.2.3 Amendment No. 3 to Restated Bylaws
- 4.0 Captec Promissory Notes and related loan documents (incorporated by reference to the Form 10-Q for the period ended June 30, 2002)
- +10.1 November 2001 Severance Agreement (incorporated by reference to the Form 10-Q for the period ended June 30, 2002)
- +10.1.1 Employment Agreement of Robyn B. Mabe (incorporated by reference to the Form 10-Q for period ended September 30, 2007)
- +10.1.2 Employment Agreement of James C. Verney (incorporated by reference to the Form 10-Q for period ended September 30, 2004)
- +10.1.3 Memorandum of Understanding with James C. Verney (incorporated by reference to the Form 10-K for the year ended December 31, 2005)
- +10.2 2004 Non-Employee Directors Stock Option Plan (incorporated by reference to the Form 10-Q for period ended June 30, 2004)
- +10.3 2005 Stock Option Plan (incorporated by reference to the Schedule 14A Definitive Proxy Statement filed April 29, 2005)
- +10.11 1994 Austins Steaks & Saloon, Inc. Incentive and Nonqualified Stock Option Plan, as amended (incorporated by reference to the specific exhibit to the Form SB-2 Registration Statement, as filed with the Securities and Exchange Commission on January 23, 1995, Registration No. 33-84440-D)
- +10.11.1 Amendment No. 2 to the 1994 Incentive and Nonqualified Stock Option Plan of the Company (incorporated by reference to the specific exhibit to the Form S-4 Registration Statement, as filed with the Securities and Exchange Commission on May 13, 1999, Registration No. 333-78375)

Table of Contents

|          |  |
|----------|--|
| +10.11.2 | Amendment No. 3 to the 1994 Incentive and Nonqualified Stock Option Plan of the Company (incorporated by reference to the specific exhibit to the Form S-4 Registration Statement, as filed with the Securities and Exchange Commission on May 13, 1999, Registration No. 333-78375)   |
| 10.12    | September 27, 2002, Settlement with group of Company Stockholders in an anticipated proxy battle (incorporated by reference to the Form 8-K filed September 27, 2002)  |
| 21       | Subsidiaries of the Issuer:<br>The Western Sizzlin Stores, Inc., a Tennessee Corporation<br>The Western Sizzlin Stores of Little Rock, Inc., an Arkansas Corporation<br>The Western Sizzlin Stores of Louisiana, Inc., a Virginia Corporation<br>Western Sizzlin Stores of Virginia, Inc., a Virginia Corporation<br>Western Sizzlin Franchises, Inc., a Delaware Corporation<br>Woodgrill Franchises, Inc., a Delaware Corporation<br>Western Sizzlin Franchise Corporation, a Delaware Corporation<br>Western Investments, Inc., a Delaware Corporation<br>Western Properties, Inc., a Delaware Corporation<br>Western Acquisitions, L.P., a Delaware Limited Partnership<br>Western Real Estate, L.P., a Delaware Limited Partnership |
| 23.1     | Consent of Dixon Hughes PLLC   |
| 23.2     | Consent of Grant Thornton LLP  |
| 31.1     | Certification of Principal Executive Officer pursuant to Rule 13a-14(a)  |
| 31.2     | Certification of Principal Financial Officer pursuant to Rule 13a-14(a)  |
| 32.1     | Chief Executive Officer s Certification pursuant to 18 U.S.C. SEC-1350   |
| 32.2     | Chief Financial Officer s Certification pursuant to 18 U.S.C. SEC-1350   |

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+ Management contract or compensatory benefit plan.

Table of Contents

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Stockholders

Western Sizzlin Corporation

We have audited the accompanying consolidated balance sheets of Western Sizzlin Corporation and subsidiaries as of December 31, 2008 and 2007 and the related consolidated statements of operations, stockholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the 2008 and 2007 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Western Sizzlin Corporation and subsidiaries as of December 31, 2008 and 2007 and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Notes 1 and 10, on January 1, 2007, the Company adopted FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*, an interpretation of FASB Statement No. 109.

/s/ Dixon Hughes PLLC  
High Point, North Carolina  
March 31, 2009

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Board of Directors and Shareholders

Western Sizzlin Corporation:

EXPECTED MATURITY DATE

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We have audited the accompanying consolidated statements of operations, shareholders' equity and cash flows of **Western Sizzlin Corporation and Subsidiaries** for the year ended December 31, 2006. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the results of operations and cash flows of Western Sizzlin Corporation and subsidiaries for the year ended December 31, 2006, in conformity with accounting principles generally accepted in the United States of America.

/s/ Grant Thornton  
Greensboro, North Carolina  
March 16, 2007

F-1

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Table of Contents

**WESTERN SIZZLIN CORPORATION  
AND SUBSIDIARIES**

Consolidated Balance Sheets  
December 31, 2008 and 2007

|  | 2008             | 2007             |
|--|------------------|------------------|
| <b>Assets</b>  |                  |                  |
| Current assets:  |                  |                  |
| Cash and cash equivalents  | \$ 330,998       | \$ 727,378       |
| Money market investments   | 3,735,821        |                  |
| Trade accounts receivable, less allowance for doubtful accounts of \$339,752 in 2008 and \$198,425 in 2007                             | 1,064,389        | 994,085          |
| Current installments of notes receivable, less allowance for impaired notes of \$62,926 in 2008 and \$50,904 in 2007                   | 198,912          | 219,501          |
| Other receivables  | 78,982           | 132,283          |
| Income tax receivable  | 98,362           | 90,161           |
| Inventories  | 59,126           | 73,017           |
| Prepaid expenses   | 133,785          | 228,396          |
| Deferred income taxes  | 494,926          | 404,334          |
| <b>Total current assets</b>  | <b>6,195,301</b> | <b>2,869,155</b> |
| Notes receivable, less allowance for impaired notes receivable of \$6,980 in 2008 and \$15,501 in 2007, excluding current installments | 449,990          | 625,231          |
| Property and equipment, net  | 1,500,149        | 1,877,694        |
| Investment in real estate  | 3,745,152        | 3,745,152        |
| Investments in marketable securities   | 16,708,479       | 15,896,865       |
| Investment management customer relationships, net of accumulated amortization of \$73,762 in 2008 and \$0 in 2007                      | 1,346,238        |                  |
| Franchise royalty contracts, net of accumulated amortization of \$9,454,432 in 2008 and \$8,824,135 in 2007                            |                  | 630,296          |
| Goodwill   | 4,995,262        | 4,310,200        |
| Financing costs, net of accumulated amortization of \$194,639 in 2008 and \$192,832 in 2007  | 5,572            | 7,378            |
| Investment in unconsolidated joint venture   | 304,695          | 304,996          |
| Deferred income taxes  | 665,805          | 235,655          |
| Other assets   | 36,180           | 6,450            |
|  | \$ 35,952,823    | \$ 30,509,072    |
| <b>Liabilities and Stockholders Equity</b>   |                  |                  |
| Current liabilities:   |                  |                  |
| Note payable line of credit  | \$               | \$ 2,000,000     |
| Due to broker  |                  | 342,022          |
| Current installments of long-term debt   | 373,925          | 118,783          |
| Accounts payable   | 812,839          | 733,983          |
| Accrued expenses and other   | 1,423,092        | 1,283,237        |
| <b>Total current liabilities</b>   | <b>2,609,856</b> | <b>4,478,025</b> |
| Long-term debt, excluding current installments   | 2,833,587        | 566,272          |
| Other long-term liabilities  | 1,208,147        | 89,039           |
|  | 6,651,590        | 5,133,336        |

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|   |               |               |
|---|---------------|---------------|
| Minority interest   | 11,288,681    | 1,873,748     |
| Commitments and contingencies (Notes 2, 9 and 18)   |               |               |
| Stockholders' equity:   |               |               |
| Convertible preferred stock, series A, \$10 par value (involuntary liquidation preference of \$10 per share). Authorized 25,000 shares; none issued |               |               |
| Convertible preferred stock, series B, \$1 par value (involuntary liquidation preference of \$1 per share). Authorized 875,000 shares; none issued  |               |               |
| Common stock, \$0.01 par value. Authorized 10,000,000 shares; issued (including treasury stock) 2,831,884 in 2008 and 2,696,625 shares in 2007      | 28,320        | 26,967        |
| Treasury stock, at cost, 9,099 shares in 2008, 0 shares in 2007   | (90,583)      |               |
| Additional paid-in capital  | 22,235,872    | 20,415,785    |
| Retained earnings (accumulated deficit)   | (3,376,054)   | 2,978,189     |
| Accumulated other comprehensive income (loss) unrealized holding gains (losses), net of taxes   | (785,003)     | 81,047        |
| Total stockholders' equity  | 18,012,552    | 23,501,988    |
|   | \$ 35,952,823 | \$ 30,509,072 |

See accompanying notes to consolidated financial statements.



Table of Contents

**WESTERN SIZZLIN CORPORATION  
AND SUBSIDIARIES**

Consolidated Statements of Operations  
Years ended December 31, 2008, 2007 and 2006

|  | 2008                  | 2007                | 2006              |
|--|-----------------------|---------------------|-------------------|
| <b>Revenues:</b>   |                       |                     |                   |
| Company-operated restaurants   | \$ 13,083,237         | \$ 12,908,577       | \$ 12,985,109     |
| Franchise operations   | 3,726,020             | 3,955,762           | 4,011,740         |
| Other  | 395,490               | 393,274             | 407,091           |
| <b>Total revenues</b>  | <b>17,204,747</b>     | <b>17,257,613</b>   | <b>17,403,940</b> |
| <b>Costs and expenses – restaurant and franchise operations:</b>                                       |                       |                     |                   |
| Company-operated restaurants – food, beverage and labor costs  | 9,783,218             | 9,307,505           | 9,294,432         |
| Restaurant occupancy and other   | 2,379,768             | 2,366,121           | 2,458,666         |
| Franchise operations – direct support  | 1,308,433             | 1,361,900           | 1,234,256         |
| Subleased restaurant property expenses   | 545,226               | 101,664             | 64,438            |
| Corporate expenses   | 1,989,356             | 1,965,862           | 2,226,151         |
| Depreciation and amortization expense  | 1,041,818             | 1,063,017           | 1,057,492         |
| Impairment and other charges   |                       |                     | 46,284            |
| Claims settlement and legal fees associated with lawsuit   | 180,044               | 741,287             | 289,109           |
| <b>Total costs and expenses – restaurant and franchise operations</b>                                  | <b>17,227,863</b>     | <b>16,907,356</b>   | <b>16,670,828</b> |
| Equity in income (loss) of joint venture   | 199,699               | 157,516             | (160,902)         |
| <b>Income from restaurant and franchise operations</b>   | <b>176,583</b>        | <b>507,773</b>      | <b>572,210</b>    |
| Investment advisory fee income   | 240,478               |                     |                   |
| Net realized gain on sales of marketable securities  | 204,232               | 1,972,252           |                   |
| Net unrealized losses on marketable securities held by limited partnerships                            | (7,130,689)           | (2,787,876)         |                   |
| Amortization expense – investment activities   | (73,762)              |                     |                   |
| Expenses of investment activities, including interest of \$109,042 in 2008<br>And \$0 in 2007 and 2006 | (983,968)             | (347,634)           | (105,000)         |
| <b>Loss from investment activities</b>   | <b>(7,743,709)</b>    | <b>(1,163,258)</b>  | <b>(105,000)</b>  |
| <b>Other income (expense):</b>   |                       |                     |                   |
| Interest expense   | (84,844)              | (106,263)           | (159,518)         |
| Loss on early extinguishment of long-term debt   |                       |                     | (92,535)          |
| Interest income  | 110,718               | 106,741             | 69,269            |
| Other, net   | 11,183                | 11,048              | 175,721           |
| <b>Total other income (expense), net</b>   | <b>37,057</b>         | <b>11,526</b>       | <b>(7,063)</b>    |
| <b>Income (loss) before income tax expense and minority interests</b>                                  | <b>(7,530,069)</b>    | <b>(643,959)</b>    | <b>460,147</b>    |
| Income tax expense (benefit)   | (502,200)             | (49,078)            | 185,808           |
| Minority interests   | 673,626               | 351,252             |                   |
| <b>Net income (loss)</b>   | <b>\$ (6,354,243)</b> | <b>\$ (243,629)</b> | <b>\$ 274,339</b> |

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Earnings (loss) per share (basic and diluted):

|                   |    |        |    |        |    |      |
|-------------------|----|--------|----|--------|----|------|
| Net income (loss) | \$ | (2.29) | \$ | (0.13) | \$ | 0.23 |
|-------------------|----|--------|----|--------|----|------|

See accompanying notes to consolidated financial statements.

F-3

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Table of Contents

**WESTERN SIZZLIN CORPORATION  
AND SUBSIDIARIES**

Consolidated Statements of Stockholders' Equity  
Years ended December 31, 2008, 2007 and 2006

|  | Common stock<br>Shares | Dollars   | Treasury stock<br>Shares | Dollars | Additional<br>Paid-in Capital | Retained<br>Earnings<br>(Accumulated<br>Deficit) | Accumulated<br>Other<br>Comprehensive<br>Income (Loss) | Total         |
|--|------------------------|-----------|--------------------------|---------|-------------------------------|--|--|---------------|
| Balances, December 31, 2005  | 1,188,850              | \$ 11,889 |                          | \$      | \$ 8,681,775                  | \$ 3,065,854                                     |  | \$ 11,759,518 |
| Net Income   |                        |           |                          |         |                               | 274,339  |  | 274,339       |
| Change in unrealized holding gains, net of taxes of \$715,608  |                        |           |                          |         |                               |  | 1,249,269  | 1,249,269     |
| Comprehensive income   |                        |           |                          |         |                               |  |  | 1,523,608     |
| Compensation expense associated with stock option plans  |                        |           |                          |         | 39,100                        |  |  | 39,100        |
| Stock options exercised  | 3,000                  | 30        |                          |         | 27,570                        |  |  | 27,600        |
| Costs incurred in rights offering  |                        |           |                          |         | (123,280)                     |  |  | (123,280)     |
| Stock issued in rights offering  | 595,900                | 5,959     |                          |         | 4,165,516                     |  |  | 4,171,475     |
| Balances, December 31, 2006  | 1,787,750              | 17,878    |                          |         | 12,790,681                    | 3,340,193  | 1,249,269  | 17,398,021    |
| Net Loss   |                        |           |                          |         |                               | (243,629)  |  | (243,629)     |
| Change in unrealized holding gains, net of taxes of \$32,771   |                        |           |                          |         |                               |  | 54,576   | 54,576        |
| Less: Reclassification of unrealized gains on securities sold during 2007, net of taxes of \$700,583 |                        |           |                          |         |                               |  | (1,222,798)  | (1,222,798)   |
| Comprehensive loss   |                        |           |                          |         |                               |  |  | (1,411,851)   |
| Share based compensation   |                        |           |                          |         | 5,920                         |  |  | 5,920         |
| Costs incurred in rights offering  |                        |           |                          |         | (97,455)                      |  |  | (97,455)      |
| Stock issued in rights offering  | 898,875                | 8,989     |                          |         | 7,631,449                     |  |  | 7,640,438     |
| Stock options exercised  | 10,000                 | 100       |                          |         | 85,190                        |  |  | 85,290        |
| Cumulative effect of adopting FIN 48   |                        |           |                          |         |                               | (118,375)  |  | (118,375)     |
| Balances, December 31, 2007  | 2,696,625              | 26,967    |                          |         | 20,415,785                    | 2,978,189  | 81,047   | 23,501,988    |
| Net Loss   |                        |           |                          |         |                               | (6,354,243)                                      |  | (6,354,243)   |
| Change in unrealized holding gains (losses), net of taxes of \$47,798                                |                        |           |                          |         |                               |  | (866,050)  | (866,050)     |

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|  |           |           |       |             |               |                |              |    |             |
|--|-----------|-----------|-------|-------------|---------------|----------------|--------------|----|-------------|
| Comprehensive loss   |           |           |       |             |               |                |              |    | (7,220,293) |
| Shares issued for Mustang Capital Advisors, LP acquisition | 54,563    | 546       |       |             | 855,002       |                |              |    | 855,548     |
| Shares issued for ITEX Corp common stock                   | 57,196    | 572       |       |             | 800,172       |                |              |    | 800,744     |
| Stock options exercised                                    | 23,500    | 235       |       |             | 164,913       |                |              |    | 165,148     |
| Treasury stock purchases                                   |           |           | 9,099 | (90,583)    |               |                |              |    | (90,583)    |
| Balances, December 31, 2008                                | 2,831,884 | \$ 28,320 | 9,099 | \$ (90,583) | \$ 22,235,872 | \$ (3,376,054) | \$ (785,003) | \$ | 18,012,552  |

See accompanying notes to consolidated financial statements.

Table of Contents

**WESTERN SIZZLIN CORPORATION**  
**AND SUBSIDIARIES**

Consolidated Statements of Cash Flows

Years ended December 31, 2008, 2007 and 2006

|  | 2008           | 2007         | 2006        |
|--|----------------|--------------|-------------|
| <b>Cash flows from operating activities:</b>   |                |              |             |
| Net income (loss)  | \$ (6,354,243) | \$ (243,629) | \$ 274,339  |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities: |                |              |             |
| Restaurant and franchise activities:   |                |              |             |
| Depreciation and amortization of property and equipment  | 408,335        | 428,099      | 427,195     |
| Amortization of franchise royalty contracts and other assets                                       | 630,296        | 630,296      | 630,295     |
| Write-off of financing costs related to early extinguishment of long-term debt                     |                |              | 29,699      |
| Amortization of finance costs  | 1,806          | 4,162        | 22,525      |
| Provision for doubtful accounts  | 145,661        | 124,659      | 110,000     |
| Share-based compensation   |                | 5,920        | 39,100      |
| Provision for deferred income taxes  | (475,807)      | 695,285      | 185,808     |
| Loss on disposal of property and equipment   | 2,879          |              | 11,434      |
| Loss on sale of asset held for sale  |                |              | 501         |
| Impairment charges   |                |              | 46,284      |
| Equity in loss (income) of unconsolidated joint venture  | (199,699)      | (157,516)    | 160,902     |
| Decrease in current assets and other assets  | 104,188        | 50,543       | 43,698      |
| Increase (decrease) in current liabilities and other liabilities                                   | 359,006        | 831,788      | (201,107)   |
|  | 976,665        | 2,613,236    | 1,506,334   |
| Investment activities:   |                |              |             |
| Amortization of investment management customer relationships                                       | 73,762         |              |             |
| Realized gains on sales of marketable securities, net  | (204,232)      | (1,972,252)  |             |
| Unrealized losses on marketable securities, net  | 7,130,689      | 2,787,876    |             |
| Minority interests in loss of limited partnerships   | (673,626)      | (351,252)    |             |
| Proceeds from sales of marketable securities   | 22,998,998     | 12,384,056   |             |
| Purchases of marketable securities   | (25,596,362)   | (24,450,012) |             |
| Adjustment of purchase obligation Mustang Capital Advisors, LP                                     | (160,531)      |              |             |
| Decrease in money market investments   | 992,824        |              |             |
| Increase (decrease) in due to broker   | (342,022)      | 342,022      |             |
| Provision for deferred income taxes  | 2,863          | (765,676)    |             |
| Increase (decrease) in current liabilities   | (164,646)      | 128,807      |             |
|  | 4,057,717      | (11,896,431) |             |
| Net cash provided by (used in) operating activities  | (1,319,861)    | (9,526,824)  | 1,780,673   |
| Cash flows from investing activities:  |                |              |             |
| Decrease in money market and short-term investments  |                |              | 260,069     |
| Additions to property and equipment  | (33,669)       | (35,493)     | (492,107)   |
| Purchase of real estate held for investment  |                | (3,745,152)  |             |
| Purchases of marketable securities   |                |              | (4,543,768) |

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|  |           |             |             |
|--|-----------|-------------|-------------|
| Purchase of Mustang Capital Advisors, net of cash acquired of \$10,219 | (379,872) |             |             |
| Distributions from unconsolidated joint venture                        | 200,000   |             |             |
| Proceeds from fire casualties  |           |             | 784,993     |
| Proceeds from sale of property   |           |             | 2,800       |
| Proceeds from sale of asset held for sale                              |           |             | 299,499     |
| Net cash used in investing activities                                  | (213,541) | (3,780,645) | (3,688,514) |

F-5

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Table of Contents

**WESTERN SIZZLIN CORPORATION**  
**AND SUBSIDIARIES**

Consolidated Statements of Cash Flows

Years ended December 31, 2008, 2007 and 2006

|   | 2008         | 2007        | 2006         |
|---|--------------|-------------|--------------|
| Cash flows from financing activities:   |              |             |              |
| Cash received from exercise of stock options                                    | \$ 165,148   | \$ 85,290   | \$ 27,600    |
| Cash received from stock rights offering  |              | 7,640,438   | 4,171,475    |
| Payments on stock rights offering   |              | (97,455)    | (123,280)    |
| Proceeds from issuance of long-term debt  | 2,641,220    |             |              |
| Payments on long-term debt  | (118,763)    | (163,070)   | (1,488,158)  |
| Cash received from line of credit borrowings                                    |              | 2,000,000   | 695,000      |
| Payment on line of credit borrowings  | (2,000,000)  |             | (695,000)    |
| Borrowings related to margin debt   |              |             | 1,760,393    |
| Payments on margin debt   |              |             | (1,760,393)  |
| Purchases of treasury stock   | (90,583)     |             |              |
| Capital contributions from minority interests in limited partnership            | 540,000      | 2,225,000   |              |
| Net cash provided by financing activities                                       | 1,137,022    | 11,690,203  | 2,587,637    |
| Net increase (decrease) in cash and cash equivalents                            | (396,380)    | (1,617,266) | 679,796      |
| Cash and cash equivalents at beginning of the year                              | 727,378      | 2,344,644   | 1,664,848    |
| Cash and cash equivalents at end of the year                                    | \$ 330,998   | \$ 727,378  | \$ 2,344,644 |
| Supplemental disclosure of cash flow information:                               |              |             |              |
| Cash payments for interest  | \$ 194,878   | \$ 101,176  | \$ 87,380    |
| Adoption of FIN-48 (non-cash)   | \$           | \$ 118,375  | \$           |
| Income taxes paid (refunded)  | \$ (21,055)  | \$ (51,969) | \$ 402,761   |
| Write-offs of accounts and notes receivable                                     | \$           | \$ 521,091  | \$ 31,021    |
| Non-cash investing and financing activities:                                    |              |             |              |
| Unrealized gains (losses) from marketable equity securities                     | \$ (913,848) | \$ 41,598   | \$ 1,964,877 |
| Issuance of common stock for marketable securities                              | \$ 800,744   | \$          | \$           |
| Issuance of common stock for ownership interest in Mustang Capital Advisors, LP | \$ 855,548   | \$          | \$           |

During 2006, deposits on construction of \$378,455 related to company store remodels were reclassified to property and equipment upon the related assets being placed in service.

See accompanying notes to consolidated financial statements.





Table of Contents

**WESTERN SIZZLIN CORPORATION  
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

December 31, 2008, 2007 and 2006

**(1) Summary of Significant Accounting Policies**

**(a) *Introduction and Basis of Presentation***

Western Sizzlin Corporation is a holding company which owns a number of subsidiaries, with its primary business activities conducted through Western Sizzlin Franchise Corporation and Western Sizzlin Stores, Inc., which franchise and operate restaurants. Financial decisions are centralized at the holding company level, and management of operating businesses is decentralized at the business unit level. The Company's prime objective centers on achieving above-average returns on capital in pursuit of maximizing the eventual net worth of its stockholders. While the Company has historically been principally engaged, and intends at this time to remain principally engaged, in franchising and operating restaurants, it has recently made selective investments in other companies. At December 31, 2008, the Company had 104 franchised, 5 Company-operated and 1 joint venture restaurant operating in 19 states.

The consolidated financial statements include the accounts of Western Sizzlin Corporation and its wholly-owned subsidiaries, Western Sizzlin Franchise Corporation, The Western Sizzlin Stores, Inc., Western Sizzlin Stores of Little Rock, Inc., Austins of Omaha, Inc., Western Investments, Inc., Western Properties, Inc., a majority-owned limited partnership, Western Acquisitions, L.P., a solely-owned limited partnership, Western Real Estate, L.P. and Western Mustang Holdings, L.L.C. (collectively the Company). All significant intercompany accounts and transactions have been eliminated in consolidation.

**(b) *Cash Equivalents***

The Company considers all highly liquid debt instruments with original maturities of three months or less to be cash equivalents. The money market investments of \$3.7 million are funds held by Mustang Capital Advisors, LP for investment purposes, and are not available for use in operations. (See Note 10).

**(c) *Trade Accounts Receivable***

Trade accounts receivable are recorded at the invoiced amounts, which generally are due thirty days after the invoice date and are considered past due after thirty days. The allowance for doubtful accounts is the Company's best estimate of the amount of probable credit losses in the Company's existing accounts receivable. The Company reviews its allowance for doubtful accounts monthly. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. The Company does not have any off-balance-sheet credit exposure related to its franchisees.

(d) ***Notes Receivable***

Notes receivable are recorded at cost, less an allowance for impaired notes receivable. Management, considering current information and events regarding the borrowers' ability to repay their obligations, considers a note receivable to be impaired when it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the note agreement. When a note receivable is considered to be impaired, the amount of the impairment is measured based on the present value of expected future cash flows discounted at the note's effective interest rate. Impairment losses are included in the allowance for impaired notes receivable through a charge to provision for bad debts. Interest income on impaired notes is recognized on the cash basis and is not material.

(e) ***Inventories***

Inventories are stated at the lower of cost (first-in, first-out method) or market and consist primarily of food, beverages, and restaurant supplies.

Table of Contents

(f) ***Property and Equipment***

Property and equipment are stated at cost and depreciated on the straight-line basis over useful lives of 3 to 10 years. Leasehold improvements are amortized over the shorter of the asset's estimated useful life or the lease term. If the estimated useful life of a leasehold improvement exceeds the lease term and the lease allows for a renewable term and renewal is reasonably assured, the estimated useful life of the leasehold improvement is used for amortization purposes. Gains or losses are recognized upon the disposal of property and equipment and the cost and the related accumulated depreciation and amortization are removed from the accounts. Maintenance, repairs, and betterments which do not enhance the value of or increase the life of the assets are expensed as incurred.

Land held for investment is recorded at cost and is being held for future sale or development.

(g) ***Marketable Securities***

Marketable securities held by Western Sizzlin Corporation (the holding company) are held for an indefinite period of time and thus are classified as available-for-sale securities. Realized Investment gains and losses are included in the consolidated statement of income, as are provisions for other than temporary declines in the market value of available for-sale-securities. Unrealized gains and unrealized losses deemed to be temporary are excluded from earnings (losses), net of applicable taxes, as a component of other comprehensive income (loss). Factors considered in judging whether an impairment is other than temporary include the financial condition, business prospects and creditworthiness of the issuer, the length of time that fair value has been less than cost, the relative amount of decline, and the Company's ability and intent to hold the investment until the fair value recovers.

Western Acquisitions, L.P. and Western Mustang Holdings, L.L.C. are, for GAAP purposes, investment companies under the AICPA Audit and Accounting Guide *Investment Companies*. The Company has retained the specialized accounting for these entities, pursuant to EITF Issue No. 85-12, *Retention of Specialized Accounting for Investments in Consolidation*. As such, marketable equity securities held by Western Acquisitions, L.P. and Western Mustang Holdings, L.L.C. are recorded at fair value in Investments in Marketable Securities, with unrealized gains and losses resulting from the change in fair value reflected in the consolidated Statement of Operations.

The Company determines cost on marketable securities sold based on the first in, first out method.

(h) ***Franchise Royalty Contract, Investment Management Customer Relationships***

Franchise royalty contracts are amortized on a straight-line basis over fifteen years, the estimated average life of the franchise agreements. Investment management customer relationships are amortized on a straight-line basis over ten and a half years, the estimated life of the contracts and agreements. The Company assesses the recoverability of these intangible assets by determining whether their remaining life can be recovered through undiscounted future operating cash flows of the acquired operations. The amount of impairment, if any, is measured based on projected discounted future operating cash flows using a discount rate reflecting the Company's average cost of funds. No impairment of these

intangible assets was realized in 2008, 2007, or 2006, however, there can be no assurance that future impairment tests will not result in a charge to earnings.

(i) ***Goodwill***

Goodwill represents the excess of costs over fair value of assets of businesses acquired. Goodwill determined to have an indefinite useful life is not amortized, but instead tested for impairment at least annually in accordance with the provisions of SFAS No. 142, *Goodwill and Intangible Assets*.

Goodwill is tested annually for impairment, and is tested for impairment more frequently if events and circumstances indicate that the asset might be impaired. An impairment loss is recognized to the extent that the carrying amount exceeds the asset's fair value. No impairments to goodwill were recognized in 2008, 2007 or 2006, however, there can be no assurance that future impairment tests will not result in a charge to earnings.

On July 9, 2008, the Company completed an acquisition of controlling interests in Mustang Capital Advisors, LP and its general partner, Mustang Capital Management, LLC, through the Company's wholly-owned

Table of Contents

subsidiary, Western Mustang Holdings, LLC. Goodwill in the amount of \$556,000 has been recorded in the Investment Activity Segment for the year ended December 31, 2008 in connection with this acquisition.

**(j) *Impairment of Long-lived Assets and Long-lived Assets to Be Disposed Of***

Long-lived assets, such as property and equipment, land held for investment, franchise royalty contracts and investment management contracts and limited partnership agreements are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to the estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset.

**(k) *Income Taxes***

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. The Company records a valuation allowance to reduce net deferred tax assets to the amount that is more-likely-than-not to be realized. While the Company has considered ongoing, prudent and feasible tax planning strategies in assessing the need for a valuation allowance, in the event the Company was to determine that it would be able to realize deferred tax assets in the future in an amount in excess of the net recorded amount, the Company would make an adjustment to the valuation allowance.

In July 2006, the FASB issued FASB Interpretation Number 48, *Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement No. 109*, ( FIN 48 ). FIN 48 prescribes a recognition threshold and measurement attributes for the financial statement recognition and measurement of a tax position taken in a tax return. The Company must determine whether it is more-likely-than-not that a tax position will be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. Once it is determined that a position meets the more-likely-than-not recognition threshold, the position is measured to determine the amount of benefit to recognize in the financial statements. FIN 48 applies to all tax positions related to income taxes subject to FASB Statement No. 109, *Accounting for Income Taxes*. The requirements of FIN 48 were adopted during the first quarter of 2007. The impact of adoption was a reduction to retained earnings on January 1, 2007, of \$118,375.

**(l) *Revenue Recognition***

Revenue at Company-operated restaurants is recognized as customers pay for products at the time of sale. Initial franchise fees are recognized when all material services have been substantially performed by the Company and the restaurant has opened for business. Franchise royalties, which are based on a percentage of monthly sales, are recognized as income on the accrual basis and are due within a month after a period ends. Other revenues consist primarily of sales of seasonings and marinades to franchisees. Revenues from these sales are recognized when the

product is shipped to the franchisee. Revenues are reported net of related sales taxes.

*(m) Accounting for Investment Advisory Fee Income*

Investment advisory fees received by the Company are calculated quarterly based on contractual rates and the dollar amount of assets under management. Investment advisory fees from limited partners is calculated and collected annually based on a contractual rate applied to the excess of the returns of the underlying investments over a stated threshold.

F-9

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Table of Contents

(n) ***Cost of Sales***

Cost of sales of the Company contains components from each reportable segment. Cost of Company-operated restaurants consists of food, beverage and employee costs. Restaurant occupancy and other includes utilities, insurance, maintenance, rent and other such costs of the Company-operated stores. Cost of franchise operations-direct support, includes direct costs associated with servicing the franchisees including personnel providing direct support, training materials and opening costs. Rebates and discounts from suppliers are recorded as the related purchases are made and are recognized as a reduction to cost of sales as the related inventory is sold.

Costs incurred for advertising at the franchise level as well as at the Company-operated restaurants, is expensed as incurred. Franchise advertising costs to promote the brand and to sell franchises totaled approximately \$123,000, \$169,000 and \$137,000 for 2008, 2007 and 2006, respectively, and are included in costs and expenses in the accompanying consolidated statement of operations. Company-operated advertising expense, specific to each location totaled approximately \$85,000, \$61,000 and \$175,000 for 2008, 2007 and 2006, respectively.

(o) ***Leases and Subleases***

The Company's policy requires the use of a consistent lease term for (i) calculating the maximum depreciation period for related buildings and leasehold improvements; (ii) classifying the lease; and (iii) computing periodic rent expense increases where the lease terms include escalations in rent over the lease term. The lease term commences on the date when the Company becomes legally obligated for the rent payments. The Company accounts for rent escalations in leases on a straight-line basis over the expected lease term. Any rent holidays after lease commencement are recognized on a straight-line basis over the expected lease term, which includes the rent holiday period. Leasehold improvements that have been funded by lessors have historically been insignificant. Any leasehold improvements the Company makes that are funded by lessor incentives or allowances under operating leases are recorded as leasehold improvement assets and amortized over the expected lease term. Such incentives are also recorded as deferred rent and amortized as reductions to lease expense over the expected lease term. The Company records contingent rent expense based on estimated sales for respective units over the contingency period.

(p) ***Earnings (Loss) Per Share***

Basic earnings (loss) per share excludes dilution and is computed by dividing income (loss) available to common stockholders by the weighted-average number of common shares outstanding for the period. Diluted earnings per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the Company.

The following is a reconciliation of the numerators and denominators of the basic and diluted earnings per share computations for the years indicated:

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|                               | Income<br>(loss)<br>(numerator) | Weighted<br>average<br>shares<br>(denominator) | Earnings<br>(loss)<br>per share<br>amount |
|-------------------------------|---------------------------------|--|---|
| Year ended December 31, 2008: |                                 |  |   |
| Net loss basic                | \$ (6,354,243)                  | 2,769,779                                      | \$ (2.29)                                 |
| Net loss diluted              | \$ (6,354,243)                  | 2,769,779                                      | \$ (2.29)                                 |
| Year ended December 31, 2007: |                                 |  |   |
| Net loss basic                | \$ (243,629)                    | 1,904,885                                      | \$ (0.13)                                 |
| Net loss diluted              | \$ (243,629)                    | 1,904,885                                      | \$ (0.13)                                 |
| Year ended December 31, 2006: |                                 |  |   |
| Net income basic              | \$ 274,339                      | 1,215,103                                      | 0.23                                      |
| Net income diluted            | \$ 274,339                      | 1,224,582                                      | 0.23                                      |

F-10

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Table of Contents

Options to purchase 50,000 shares in 2006 were antidilutive and were not included in the diluted EPS calculation. For the years ended December 31, 2008 and 2007, the Company excluded from the loss per share calculations all potential common stock because the effect on earnings per share was anti-dilutive.

*(q)            Reclassifications*

Certain reclassifications have been made to the 2006 consolidated statements of operations to place them on a basis comparable with the 2008 and 2007 information which had no impact on earnings or equity.

Beginning in 2007, the Company considered all investment activities to be operating activities.

*(r)            Use of Estimates*

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management of the Company to make a number of estimates and assumptions relating to the reported amount of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

*(s)            Variable Interests*

The Company has a voting interest in WSI ADRF, Inc. ( ADRF ), an entity formed to develop national, regional and local advertising campaigns and materials for the benefit of the Company's franchised and company-owned restaurants. The Company-owned restaurants and substantially all of its franchisees are members of ADRF and therefore are required to remit a monthly payment to ADRF. These fees, along with contributions received from certain of the Company's vendors, are used by ADRF to develop and produce advertising and related materials for the company-owned restaurants and the franchisees. Total revenues of ADRF were approximately \$428,000, \$426,000 and \$532,000 for the years ended December 31, 2008, 2007 and 2006, respectively.

The Company determined that ADRF is a variable interest entity but that neither the Company nor its Company-owned stores are the primary beneficiary of ADRF and that the Company is not obligated to absorb the losses of ADRF, if any. Accordingly, the results of ADRF are not consolidated with the Company. The Company's maximum exposure to loss as a result of its involvement with ADRF is limited to reimbursement of the costs of providing certain personnel and space to ADRF. The reimbursements from ADRF for these services were \$160,000, \$178,000 and \$144,000 for the years ended December 31, 2008, 2007 and 2006, respectively.

*(t)            Recent Accounting Pronouncements*

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157 ( SFAS 157 ), *Fair Value Measurements*. SFAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. SFAS 157 applies under other accounting pronouncements that require or permit fair value measurements, the FASB having previously concluded in those accounting pronouncements that fair value is the relevant measurement attribute. Accordingly, SFAS 157 does not require any new fair value measurements. Effective January 1, 2008, the Company adopted the provisions of SFAS 157 for financial assets and liabilities. The Company applied the provisions of FSP FAS 157-2, *Effective Date of FASB Statement 157*, which defers the provisions of SFAS 157 for nonfinancial assets and liabilities to the first fiscal period beginning after November 28, 2008. The nonfinancial assets for which we have deferred adoption include goodwill and long-lived assets. The Company is required to adopt SFAS 157 for nonfinancial assets and liabilities that are not measured at fair value on a recurring basis in the first quarter of 2009 and is still evaluating the impact on the Consolidated Financial Statements.

In May 2007, the FASB issued FASB Staff Position No. FIN 46(R)-7, *Application of FASB Interpretation No. 46(R) to Investment Companies* ( FSP FIN 46(R)-7 ) which provides clarification on the applicability of FIN 46(R), as revised, to the accounting for investments by entities that apply the accounting guidance in the AICPA Audit and Accounting Guide, *Investment Companies*. FSP FIN 46(R)-7 amends FIN 46(R), as revised, to make permanent the temporary deferral of the application of FIN 46(R), as revised, to entities within the scope of the guide under Statement of Position ( SOP ) No. 07-1, *Clarification of the Scope of the Audit and*

Table of Contents

*Accounting Guide Investment Companies and Accounting by Parent Companies and Equity Method Investors for Investments in Investment Companies* ( SOP 07-1 ). FSP FIN 46(R)-7 is effective upon adoption of SOP 07-1. The adoption of FSP FIN 46(R)-7 is not expected to have a material impact on the Company.

SOP 07-1, issued in June 2007, addresses whether the accounting principles of the AICPA Audit and Accounting Guide *Investment Companies* may be applied to an entity by clarifying the definition of an investment company and whether those accounting principles may be retained by a parent company in consolidation or by an investor in the application of the equity method of accounting. SOP 07-1, as originally issued, was to be effective for fiscal years beginning on or after December 15, 2007 with earlier adoption encouraged. In February 2008, the FASB issued FSP SOP 07-1-1, *Effective Date of AICPA Statement of Position 07-01*, to indefinitely defer the effective date of SOP 07-01.

The Company's majority-owned subsidiaries, Western Acquisitions, LP and Mustang Capital Advisors, LP, are investment companies as currently defined in the AICPA Audit and Accounting Guide, *Investment Companies*. The Company has retained the specialized accounting for Western Acquisitions, LP and Mustang Capital Advisors, LP pursuant to EITF 85-12, *Retention of Specialized Accounting for Investments in Consolidation*. As such, marketable equity securities held by Western Acquisitions, LP and Mustang Capital Advisors, LP are recorded at fair value in Investments in Marketable Securities in the consolidated financial statements, with unrealized gains and losses resulting from the change in fair value reflected in the Consolidated Statement of Operations. The Company intends to monitor future developments associated with this Statement in order to assess the impact, if any, which may result.

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 141(R), *Business Combinations* ( SFAS 141R ), and Statement of Financial Accounting Standard No. 160, *Noncontrolling Interest in Consolidated Financial Statements, an amendment of ARB No. 51* ( SFAS 160 ). These new standards will significantly change the accounting for and reporting for business combinations and noncontrolling (minority) interests in consolidated financial statements. SFAS 141(R) and SFAS 160 are required to be adopted simultaneously and are effective for the first annual reporting period beginning on or after December 15, 2008. These standards will impact the Company if it completes an acquisition or obtains additional minority interests after the effective date. SFAS 160 amends ARB 51 to establish accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. It clarifies that a noncontrolling interest in a subsidiary, which is sometimes referred to as minority interest, is an ownership interest in the consolidated entity that should be reported as equity in consolidated financial statements. Among other requirements, this statement requires that the consolidated net income attributable to the parent and the noncontrolling interest be clearly identified and presented on the face of the consolidated income statement. SFAS 160 is effective for the first fiscal period beginning on or after December 15, 2008. The Company is required to adopt SFAS 160 in the first quarter of 2009 and is currently evaluating the impact of adopting SFAS 160 on its Consolidated Financial Statements.

In March 2008, the FASB issued Statement of Financial Accounting Standards SFAS No. 161 ( SFAS 161 ), *Disclosures about Derivative Instruments and Hedging Activities - An Amendment of FASB Statement No. 133*. SFAS applies to all derivative instruments and related hedged items accounted for under SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*. It requires entities to provide greater transparency about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under SFAS 133 and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity's financial position, results of operations, and cash flows. SFAS 161 is effective for fiscal years and interim periods beginning after November 15, 2008. This standard is not expected to have a material impact on the Company's consolidated financial statements.

In April 2008, the FASB issued FASB Staff Position No. 142-3, *Determination of the Useful Life of Intangible Assets* ( FSP 142-3 ). FSP 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under FASB Statement No. 142, *Goodwill and Other Intangible Assets* and requires enhanced related disclosures. FSP 142-3 must be applied prospectively to all intangible assets acquired subsequent to fiscal years beginning after December 15, 2008. The Company is currently evaluating the impact that FSP 142-3 will have on its consolidated financial statements.

In October 2008, the FASB issued FSP FAS No. 157-3, *Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active* (FSP 157-3). The FSP clarifies the application of FAS No. 157, *Fair*

F-12

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Table of Contents

*Value Measurements*, when the market for a financial asset is not active. The FSP was effective upon issuance, including reporting for prior periods for which financial statements have not been issued. The adoption of the FSP for reporting as December 31, 2008, was given consideration when making estimates of Level 2 fair value estimates, as disclosed in Note 13.

**(2) Acquisition of Controlling Interests**

On July 9, 2008, the Company completed the acquisition of a 50.5% controlling interest in Mustang Capital Advisors, LP and a 51% controlling interest in its general partner, Mustang Capital Management, LLC, through the Company's wholly-owned subsidiary, Western Mustang Holdings, LLC. Mustang Capital Advisors, LP, a Texas limited partnership, is a registered investment advisor, and is the investment advisor to, and the general partner of Mustang Capital Partners I, LP and Mustang Capital Partners II, LP (the Funds). The Funds are private investment funds organized for the purpose of trading and investing in securities. The aggregate purchase price was \$1,245,640, which consisted of \$300,000 in cash, \$90,092 in transaction costs, and 54,563 shares of common stock issued at a per share price of \$15.68. Mustang Capital Advisors, LP managed approximately \$34 million in assets through its funds and managed accounts as of December 31, 2008. The value of the 54,563 common shares issued was determined based on the average market price of the Company's common shares over the 3-day period before and after the terms of the acquisition were agreed to and announced. The acquisition was accounted for as a purchase under GAAP (Generally Accepted Accounting Principles) and as a result, Mustang Capital Advisors, LP and Mustang Capital Management, LLC are consolidated into the Company's financial statements. As a result of the acquisition, the Company expects to diversify its holdings in marketable securities and increase the cash flow stream into the Company.

The following table summarizes the estimated fair value of the assets acquired and liabilities assumed at the date of acquisition:

|   | <b>At July 9, 2008</b> |
|---|------------------------|
| Cash  | \$ 10,219              |
| Money market investments of investment advisory segment | 4,728,645              |
| Investments in marketable securities                    | 5,253,811              |
| Other assets  | 451                    |
| Investment management customer relationships            | 1,420,000              |
| Goodwill  | 685,062                |
| <b>Total assets acquired</b>                            | <b>12,098,188</b>      |
| Accrued expenses  | 35,839                 |
| Purchase obligation                                     | 1,155,879              |
| <b>Total liabilities assumed</b>                        | <b>1,191,718</b>       |
| Minority interests                                      | 9,660,830              |
| <b>Net assets acquired</b>                              | <b>\$ 1,245,640</b>    |

In connection with the acquisition of Mustang Capital Advisors, L.P. in 2008, the Company acquired certain customer related intangible assets. The value assigned to these intangible assets of \$1,420,000 was determined based on the present value of the estimated cash flows to be generated by the assets.

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In the event of the death, disability, or removal of the minority interest holder of Mustang Capital Advisors, LP (the Partnership ) and of Mustang Capital Management, LLC, or at any time after the Company has received aggregate distributions from the Partnership and/or Mustang Capital Management, LLC equal to \$1,050,241, any of such events being a Put Event , the Company has the obligation to purchase from the minority interest holder or his legal representative all of the minority interest holder 's ownership percentages, at a price and on terms contractually stipulated (the Purchase Obligation ). Upon the occurrence of any Put Event, the Purchase Obligation shall equal the sum of the Applicable Amount and the Hypothetical Amount, as defined below.

The Applicable Amount means a dollar amount equal to the aggregate amount of assets under management by the Partnership at the date of the Put Event, multiplied by 5.074%, with such result multiplied by the minority interest holder 's ownership percentage at the date of the Put Event. The Hypothetical Liquidation Amount means the amount expressed in dollars that the minority interest holder would receive if, on the date of the particular Put Event, the

F-13

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Table of Contents

Partnership sold all of its tangible assets at their fair market values for cash, paid its liabilities and distributed the remaining amount to the partners.

At the date of settlement of the Purchase Obligation, the Applicable Amount is required to be settled by payment of 28.56% in cash and 71.44% in common stock of Western Sizzlin Corporation, and the Hypothetical Liquidation amount shall be settled by payment of cash.

The calculated Purchase Obligation at December 31, 2008 (as if a Put Event has occurred) totals \$1,107,620 and is reported in accordance with the provisions of Statement of Financial Accounting Standards No. 150, *Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity* in the accompanying consolidated balance sheet as of December 31, 2008 in other long-term liabilities.

If the Purchase Obligation as of December 31, 2008 were settled on that date, the Company would be required to pay \$316,333 in cash and issue 63,865 shares of its common stock (based on a closing market value per share of \$12.39). Any change in the market value per share of the Company's common stock will increase or decrease the number of shares required to settle the Purchase Obligation, but will not change the amount of the Purchase Obligation.

The accompanying consolidated financial statements include the results of operations and cash flows of Mustang Capital Advisors, LP and Mustang Capital Management, LLC from July 9, 2008 (date of acquisition) through December 31, 2008.

**(3) Accounts and Notes Receivable**

Activity in the allowance for doubtful accounts was as follows:

|   | Years Ended December 31, |            |            |
|---|--------------------------|------------|------------|
|   | 2008                     | 2007       | 2006       |
| Allowance for doubtful accounts:              |                          |            |            |
| Beginning of year                             | \$ 264,831               | \$ 652,563 | \$ 573,584 |
| Provision for bad debts                       | 144,827                  | 124,659    | 110,000    |
| Recoveries                                    |                          |            |            |
| Accounts and notes receivable written off     |                          | (512,091)  | (31,021)   |
| End of year                                   | \$ 409,658               | \$ 264,831 | \$ 652,563 |
| Allowance for doubtful accounts allocated to: |                          |            |            |
| Accounts receivable                           | \$ 339,752               | \$ 198,425 | \$ 470,758 |
| Notes receivable                              | 69,906                   | 66,406     | 181,805    |
|   | \$ 409,658               | \$ 264,831 | \$ 652,563 |

The Company has various notes receivable from franchisees for amounts due under franchise agreements. The recorded investment in notes receivable for which an impairment has been recognized and the related allowance for doubtful accounts were \$69,906 and \$66,406, at December 31, 2008 and 2007, respectively. The average recorded investment in impaired notes was approximately \$68,000, \$124,000, and

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\$150,000 during 2008, 2007 and 2006, respectively.

The Company's franchisees and Company-operated restaurants are not concentrated in any specific geographic region, but are concentrated in the family steak house business. A multi-unit franchisee in Mississippi with eleven Western Sizzlin restaurants represents 7.07% and 12.17% of the Company's franchise accounts receivables at December 31, 2008 and 2007, respectively. Other than this franchisee, no single franchisee accounts for a significant amount of the Company's franchise revenue.

The Company establishes an allowance for doubtful accounts based upon factors surrounding the credit risk of specific franchisees, historical collection trends and other information. Generally, the Company does not require collateral to support receivables.

F-14

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Table of Contents**(4) Property and Equipment**

Property and equipment at December 31, 2008 and 2007 consists of the following:

|  | 2008         | 2007         |
|--|--------------|--------------|
| Furniture, fixtures, and equipment             | \$ 2,507,809 | \$ 2,479,834 |
| Leasehold improvements                         | 3,715,282    | 3,712,619    |
| Total property and equipment, at cost          | 6,223,091    | 6,192,453    |
| Less accumulated depreciation and amortization | 4,722,942    | 4,314,759    |
|  | \$ 1,500,149 | \$ 1,877,694 |

**(5) Investment in Real Estate**

On December 13, 2007, Western Real Estate, LP, a Delaware limited partnership, managed by Western Properties, Inc., a Delaware corporation and wholly-owned subsidiary of the Company, purchased approximately 23 acres of real property located in Bexar County, Texas, from unaffiliated third parties. Western Properties, Inc. serves as the general partner of Western Real Estate, LP, which intends to operate as a private real estate investment fund. Land held for investment by Western Real Estate, LP at December 31, 2008 and 2007 of \$3,745,152 is recorded at cost. The land was originally purchased using available cash and a \$2,000,000 draw on the Company's existing line of credit. On February 1, 2008, the purchase was refinanced through the issuance of a note payable of \$2,641,220, secured by the land held for investment.

**(6) Investments in Marketable Securities**

Investment and capital allocation decisions of Western Sizzlin Corporation and Western Acquisitions, LP are made by Mr. Sardar Biglari, the Company's Chairman and Chief Executive Officer, under limited authority delegated by the Board of Directors for Western Sizzlin Corporation, and the management of Western Acquisitions, LP. The delegated authority includes the authority to borrow funds in connection with making investments in marketable securities or derivative securities, subject to Board reporting requirements and various limitations. As of the date of this filing, Mr. Biglari has authority to manage surplus cash up to \$10 million, and in addition, has authority to borrow a maximum of \$5 million. The Company has a margin securities account with a brokerage firm. The margin account bears interest at the Federal Funds Target Rate quoted by the Wall Street Journal, plus .5%, or approximately .75% as of the date of this report, with the minimum and maximum amount of any particular loan to be determined by the brokerage firm, in its discretion, from time to time. The margin loan balances at December 31, 2008 and 2007 were \$0 and \$342,022, respectively. The collateral securing the margin loans are the Company's holdings in marketable securities. The minimum and maximum amount of any particular margin may be established by the brokerage firm, in its discretion, regardless of the amount of collateral delivered to the brokerage firm, and the brokerage firm may change such minimum and maximum amounts from time to time.

The minority interest holder in Mustang Capital Advisors, LP and Mustang Capital Management, LLC, has authority to manage the investments in these particular Funds.

In the normal course of business, substantially all of the Company's securities transactions, money balances and security positions are transacted with a broker. The Company is subject to credit risk to the extent any broker with whom they conduct business is unable to fulfill contractual obligations on their behalf. The Company monitors the financial conditions of such brokers and does not anticipate any losses from these counterparties.

- ***Marketable Securities held by Western Sizzlin Corporation (the holding company)***

Marketable equity securities held by Western Sizzlin Corporation (the holding company) are held for an indefinite period and thus are classified as available-for-sale. Available-for-sale securities are recorded at fair value in

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### Table of Contents

Investments in Marketable Securities on the consolidated balance sheet, with the change in fair value during the period excluded from earnings and recorded, net of tax, as a component of other comprehensive income (loss).

During the year, the Company completed an exchange offer to acquire shares of ITEX Corporation in exchange for the Company's common stock. A total of 864,487 shares of ITEX common stock were validly tendered. The Company issued 57,196 shares of common stock in exchange for ITEX shares tendered, based upon the exchange ratio of one share of ITEX common stock for .06623 shares of the Company's common stock as set forth in the tender offer. As of December 31, 2008, the Company owns 1,704,201 shares of ITEX common stock, which represents approximately 10% of ITEX's total outstanding stock.

Following is a summary of marketable equity securities held by Western Sizzlin Corporation (the holding company) as December 31, 2008 and 2007:

|                          | Cost         | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Fair Value |
|--------------------------|--------------|------------------------------|-------------------------------|------------|
| <b>December 31, 2008</b> |              |                              |                               |            |
| IteX Corporation         | \$ 1,487,631 | \$                           | \$ (771,867)                  | \$ 715,764 |
| Other                    | 25,093       |                              | (13,136)                      | 11,957     |
|                          | \$ 1,512,724 | \$                           | \$ (785,003)                  | \$ 727,721 |
| <b>December 31, 2007</b> |              |                              |                               |            |
| IteX Corporation         | \$ 584,332   | \$ 116,382                   | \$                            | \$ 700,714 |
| Other                    | 21,358       | 12,464                       |                               | 33,820     |
|                          | \$ 605,690   | \$ 128,846                   | \$                            | \$ 734,534 |

During 2007, the Company realized net gains on sales of marketable securities held by Western Sizzlin Corporation (the holding company) of \$1,923,379, comprised of gross gains of \$3,692,662 and gross losses of \$1,769,483. There were no realized gains or losses from marketable equity securities held by Western Sizzlin Corporation (the holding company) for the year ended December 31, 2008.

Management has evaluated the unrealized losses on marketable equity securities held by Western Sizzlin Corporation (the holding Company) to determine if such impairment is other than temporary, and has concluded that they are temporary as of December 31, 2008. In the event management concludes in future periods that such losses are other than temporary, a charge will be taken in the statement of operations to reduce the cost of the securities to their fair value.

Substantially all of the marketable equity securities held by Western Sizzlin Corporation (the holding company) have been in a continuous loss position for less than six months as of December 31, 2008.

Western Sizzlin Corporation's (the holding company) investments in IteX Corporation account for substantially all of its unrealized losses at December 31, 2008. Unrealized losses on the investments in IteX Corporation did not occur until August 2008 due, in management's judgment, to the volatility and illiquidity of the stock and not to the performance of IteX Corporation. Management's philosophy is to seek and invest in stocks of businesses at prices below their intrinsic business value.

- ***Marketable Securities held by Western Acquisitions, LP***

In April 2007, the Company formed Western Investments, Inc., a Delaware corporation and wholly-owned subsidiary, to serve as the general partner of Western Acquisitions, LP, a Delaware limited partnership that operates as a private investment fund. Through Western Investments, Inc., Mr. Biglari operates as the portfolio manager to the fund. During the third quarter of 2007, the Company contributed cash along with its holdings in the common stock of The Steak n Shake Company to Western Investments, Inc., which in turn contributed these assets to Western Acquisitions, LP. Cash contributions from outside investors of \$540,000 and \$2,225,000 for the years ended December 31, 2008 and 2007, respectively, were made to the limited partnership.

Table of Contents

As of December 31, 2008 and 2007, Western Investments, Inc. owned 85.11% and 87.57% of Western Acquisitions, LP. As such, Western Acquisitions, LP has been consolidated into the accompanying financial statements with the 14.89% and 12.43% ownership by minority limited partners presented as minority interest on the accompanying consolidated balance sheets as of December 31, 2008 and 2007, respectively. Western Acquisitions, LP is considered, for GAAP purposes, an investment company under the AICPA Audit and Accounting Guide *Investment Companies*. The Company has retained the specialized accounting for Western Acquisitions, LP pursuant to EITF Issue No. 85-12, *Retention of Specialized Accounting for Investment in Consolidation*. As such, marketable equity securities held by Western Acquisitions, LP are recorded at fair value in Investments in Marketable Securities, with unrealized gains and losses resulting from changes in fair value reflected in the Consolidated Statements of Operations.

As of December 31, 2008, Western Acquisitions, LP owns a total of 1,553,545 shares of The Steak n Shake Company's common stock.

Following is a summary of marketable equity securities held by Western Acquisitions, LP as of December 31, 2008 and 2007:

|                                    | As of December 31, 2008 |              | As of December 31, 2007 |               |
|------------------------------------|-------------------------|--------------|-------------------------|---------------|
|                                    | Cost                    | Fair Value   | Cost                    | Fair Value    |
| The Steak n Shake Co.              | \$ 19,159,412           | \$ 9,243,593 | \$ 17,902,714           | \$ 15,046,851 |
| Other                              | 139,881                 | 80,737       | 138,660                 | 115,480       |
| Total marketable equity securities | \$ 19,299,293           | \$ 9,324,330 | \$ 18,041,374           | \$ 15,162,331 |

Net realized gains (losses) and net change in unrealized gains (losses) from marketable equity securities held by Western Acquisitions, LP were as follows:

|   | Year Ended<br>December 31,<br>2008 | Year Ended<br>December 31,<br>2007 |
|---|------------------------------------|------------------------------------|
| Realized gains  | \$ 83,867                          | \$ 83,867                          |
| Realized losses   | (39,852)                           | (34,994)                           |
| Net realized gains (losses) on sales of marketable securities                   | \$ (39,852)                        | \$ 48,873                          |
| Net unrealized losses on marketable securities held by Western Acquisitions, LP | \$ (7,095,919)                     | \$ (2,787,876)                     |

- ***Marketable Securities held by Mustang Capital Advisors, LP***

On July 9, 2008, the Company completed an acquisition of controlling interests in Mustang Capital Advisors, LP and its general partner, Mustang Capital Management, LLC, through the Company's wholly-owned subsidiary, Western Mustang Holdings, LLC. The acquisition was accounted for as a purchase under GAAP and as a result, Mustang Capital Advisors, LP and Mustang Capital Management, LLC are consolidated into the Company's financial statements.

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Western Mustang Holdings, LLC is, for GAAP purposes, an investment company under the AICPA Audit and Accounting Guide *Investment Companies*. The Company has retained the specialized accounting for Mustang Capital Advisors, LP pursuant to EITF Issue No. 85-12, *Retention of Specialized Accounting for Investment in Consolidation*. As such, marketable equity securities held by Mustang Capital Advisors, LP are recorded at fair value in Investments in Marketable Securities, with unrealized gains and losses resulting from changes in fair value reflected in the Consolidated Statements of Operations.

Following is a summary of marketable equity securities held by Western Mustang Holdings, LLC as of December 31, 2008 and July 9, 2008 (date of acquisition):

|                                    | As of December 31, 2008 |              | As of July 9, 2008 |              |
|------------------------------------|-------------------------|--------------|--------------------|--------------|
|                                    | Cost                    | Fair Value   | Cost               | Fair Value   |
| Total marketable equity securities | \$ 6,621,658            | \$ 6,656,428 | \$ 5,253,811       | \$ 5,253,811 |

Net realized gains (losses) and net change in unrealized gains (losses) from marketable equity securities held by Mustang Capital Advisors, LP from July 9, 2008 (date of acquisition) through December 31, 2008, were as follows:

Table of Contents

|   |    |           |
|---|----|-----------|
| Realized gains  | \$ | 884,147   |
| Realized losses   |    | (660,063) |
| Net realized gains on sales of marketable securities                                | \$ | 244,084   |
| Net unrealized losses on marketable securities held by Mustang Capital Advisors, LP | \$ | (34,770)  |

**(7) Debt**

At December 31, 2008, there were no amounts outstanding on a \$2,000,000 line of credit with a bank. The line is payable on demand, subject to annual renewal by the bank with an automatic renewal at May 31, 2009, carries an interest rate of prime minus 0.50% (2.75% at December 31, 2008 and 6.75% at December 31, 2007) and collateralized by accounts receivable and the assignment of all franchise royalty contracts. Subsequent to year end, the Company borrowed \$350,000 from the line on January 9, 2009. The average amount of outstanding borrowings during 2008 and 2007 approximated \$182,000 and \$83,000, respectively.

The investment in real estate was originally purchased using available cash and a \$2,000,000 draw on the Company's line of credit on December 13, 2007. On February 1, 2008, the purchase was refinanced through the issuance of a note payable to a bank of \$2,641,220, secured by the land held for investment. Interest accrues on the unpaid principal balance at prime minus 0.5%, or 2.75% as of December 31, 2008 with one payment of principal of \$264,122 due and payable on January 29, 2009, with all remaining principal and accrued interest due on January 30, 2010.

The Company has various notes payable to a finance company with interest rates ranging from 9.82% to 10.07% due in equal monthly installments, including principal and interest, ranging from \$6,591 to \$13,487, with a final payment due on April 13, 2010. The notes payable require pre-payment premiums in certain circumstances and contain certain restrictive covenants, including debt coverage ratios, periodic reporting requirements and maintenance of operations at certain Company-operated restaurants that collateralize the notes payable. At December 31, 2008 the Company was in compliance with all covenants on the notes payable. The notes payable are collateralized by accounts receivable, inventory and property and equipment.

Following is a summary of long-term debt as of December 31, 2008 and 2007:

|  | 2008         | 2007       |
|--|--------------|------------|
| Note payable to bank                           | \$ 2,641,220 | \$ 685,055 |
| Notes payable to finance company               | 566,292      | 685,055    |
|  | 3,207,512    | 685,055    |
| Less current installments                      | 373,925      | 118,783    |
| Long-term debt, excluding current installments | \$ 2,833,587 | \$ 566,272 |

The aggregate maturities of long-term debt for each of the five years subsequent to December 31, 2008 are as follows: 2009, \$373,925; 2010, \$2,498,483; 2011, \$134,189; 2012, \$148,342 and 2013, \$52,573.

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As of December 31, 2007, the Company had amounts due to a broker of \$342,022. Due to broker represents cash borrowed on margin from a custodian broker for investment. No such amounts were due as of December 31, 2008.

### **(8) Stockholders Equity**

The Board of Directors approved a share repurchase program on June 24, 2008 authorizing the Company to repurchase up to 500,000 shares of the Company's common stock commencing June 25, 2008 at prices set as the Company's management deems appropriate. Management expects to make, on an opportunistic basis, repurchases of the Company's common stock to the extent permitted by applicable regulatory requirements. The program can be suspended or terminated at any time without prior notice, but in any event shall terminate no later than June 25, 2009. The Company made repurchases of 9,099 shares during the fourth quarter of 2008 and has recorded as treasury stock.

During the quarter ended June 30, 2008, the Company issued 57,196 shares of common stock in exchange for 864,487 shares of ITEX Corporation common stock related to the exchange offer. The fair value of the Company's common



Table of Contents

stock issued was recorded at the closing market price of \$14.00 per share on May 13, 2008, the expiration date of the tender offer. (See Note 6.)

On July 9, 2008, the Company completed an acquisition of controlling interests in Mustang Capital Advisors, LP and its general partner, Mustang Capital Management, LLC, through the Company's wholly-owned subsidiary, Western Mustang Holdings, LLC. The aggregate purchase price included the issuance of 54,563 shares of common stock issued at a per price share of \$15.68 (See Note 2).

The Company conducted a rights offering during the fourth quarter of 2007. The Company's Form S-3 Registration Statement (as amended) became effective as of October 17, 2007. The record date for the offering was October 10, 2007 and the offering expired November 16, 2007. The Company distributed, at no charge to stockholders, one transferable right for each share of common stock held on the record date. For every two rights held, a stockholder was entitled to purchase one share of the Company's common stock for \$8.50. The net cash proceeds from the sale of the common stock offered, after payment of fees and expenses, were approximately \$7.6 million. The Company used proceeds for purchases of marketable securities and the purchase of land held for investment. The balance of the proceeds were used for general corporate purposes, working capital needs and acquisitions of, or investments in, related or unrelated lines of business, as described in the offering prospectus.

On July 31, 2006, the Board of Directors approved a 1-for-10 reverse stock split. The record date of the transaction was August 10, 2006. No fractional shares were issued in connection with the reverse stock split. The par value of the common stock remained at \$0.01 per share after the reverse stock split. Unless otherwise indicated, the capital stock accounts and all share and earnings per share data in this report give effect to the reverse stock split, applied retroactively to all periods presented.

The Company conducted a rights offering during the fourth quarter of 2006. The Company's Form S-3 Registration Statement (as amended) became effective as of November 7, 2006. The record date for the offering was November 9, 2006 and the offering expired December 8, 2006. The Company distributed, at no charge to stockholders, one transferable right for each share of common stock held on the record date. For every two rights held, a stockholder was entitled to purchase one share of the Company's common stock for \$7.00. The net cash proceeds from the sale of the common stock offered, after payment of fees and expenses, were approximately \$4 million. The Company used approximately \$2.5 million of the net proceeds to pay off the balance of the line of credit of \$695,000 and to pay off margin debt of \$1.8 million on the investment in marketable securities.

**(9) Leases**

The Company is obligated under various leases through 2015 for equipment, offices, Company-operated restaurants and restaurants which are subleased to franchisees. Initial terms for facility leases are typically 5 to 10 years, followed by additional terms containing renewal options at 5 year intervals, and may include rent escalation clauses. In addition, certain of the leases require the payment of contingent rentals based on a percentage of sales above stipulated levels.

At December 31, 2008, minimum rental payments due under operating leases and sublease rentals to be received by the Company are as follows:

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|                              | Operating<br>leases | Sublease<br>rentals | Net          |
|------------------------------|---------------------|---------------------|--------------|
| 2009                         | \$ 634,425          | \$                  | \$ 634,425   |
| 2010                         | 623,880             |                     | 623,880      |
| 2011                         | 367,611             |                     | 367,611      |
| 2012                         | 399,171             |                     | 399,171      |
| 2013                         | 405,086             |                     | 405,086      |
| Subsequent years             | 766,908             |                     | 766,908      |
| Total minimum lease payments | \$ 3,197,081        | \$                  | \$ 3,197,081 |

Total rent expense (net of sublease rentals of \$40,500, \$54,000, and \$377,000, under operating leases for 2008, 2007 and 2006, respectively) approximated \$705,000, \$787,000 and \$878,000 for 2008, 2007 and 2006, respectively. Contingent rentals approximated \$0, \$0 and \$109,000 in 2008, 2007 and 2006, respectively. Taxes, insurance and maintenance expenses relating to all leases are obligations of the Company.

Table of Contents

Certain of the Company's sublease arrangements are with franchisees. Sublease income received from franchisees amounted to \$40,500 in 2008, \$54,000 in 2007 and \$208,000 in 2006.

**(10) Income Taxes**

Income tax expense (benefit) for the years ended December 31, 2008, 2007 and 2006 consists of the following:

|                                      | Current     | Deferred     | Total        |
|--------------------------------------|-------------|--------------|--------------|
| <b>Year ended December 31, 2008:</b> |             |              |              |
| Federal                              | \$ (32,835) | \$ (446,459) | \$ (479,294) |
| State                                | 3,579       | (26,485)     | (22,906)     |
|                                      | \$ (29,256) | \$ (472,944) | \$ (502,200) |
| <b>Year ended December 31, 2007:</b> |             |              |              |
| Federal                              | \$ 64,421   | \$ (71,955)  | \$ (7,534)   |
| State                                | (43,108)    | 1,564        | (41,544)     |
|                                      | \$ 21,313   | \$ (70,391)  | \$ (49,078)  |
| <b>Year ended December 31, 2006:</b> |             |              |              |
| Federal                              | \$          | \$ 174,238   | \$ 174,238   |
| State                                |             | 11,570       | 11,570       |
|                                      | \$          | \$ 185,808   | \$ 185,808   |

Income tax expense (benefit) differs from the amount computed by applying the statutory corporate tax rate of 34% to income (loss) before income tax expense as follows for the years ended December 31, 2008, 2007 and 2006:

|   | 2008           | 2007         | 2006       |
|---|----------------|--------------|------------|
| Expected income tax expense (benefit)                 | \$ (2,564,771) | \$ (218,946) | \$ 156,450 |
| State income tax, net of federal income tax benefit   | (156,201)      | 35,906       | 11,570     |
| Effective state income tax rate adjustment            |                |              | 11,390     |
| Adjustment of purchase obligation                     | (54,581)       |              |            |
| Stock options exercised                               | (52,910)       |              |            |
| Tips credit   | (114,209)      |              |            |
| Change in valuation allowance                         | 2,206,631      | 120,000      |            |
| FIN 48 adjustments                                    | (20,904)       | (78,289)     |            |
| NOL carryforward adjustment                           | 1,782          | (26,568)     |            |
| Minority interest in net loss of limited partnerships | 229,033        | 119,426      |            |
| Other   | 23,930         | (607)        | 6,398      |
|   | \$ (502,200)   | \$ (49,078)  | \$ 185,808 |

The tax effects of temporary differences that give rise to significant portions of the deferred income tax assets at December 31, 2008 and 2007 are presented below:

2008

2007

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|   |    |             |             |
|---|----|-------------|-------------|
| Deferred income tax assets:   |    |             |             |
| Net operating loss carryforwards  | \$ | 792,219     | \$ 364,096  |
| Accounts receivable, principally due to allowance for doubtful accounts |    | 149,197     | 96,451      |
| Accrued expenses  |    | 350,736     | 394,041     |
| AMT credit  |    | 80,152      | 76,285      |
| Tips credit   |    | 91,247      |             |
| Unrealized losses on securities   |    | 3,094,436   | 871,138     |
| Stock options   |    | 9,287       | 9,287       |
| Contribution carryforward   |    | 1,168       |             |
| Severance pay   |    | 45,525      |             |
| Other   |    | 34,643      |             |
| Less valuation allowance  |    | (2,326,631) | (120,000)   |
| Subtotal  |    | 2,321,979   | 1,691,298   |
| Deferred income tax liabilities:  |    |             |             |
| Investment in joint venture   |    | (2,975)     | (2,975)     |
| Property and equipment, principally due to impairment charges           |    | (107,785)   | (105,869)   |
| Prepaid expenses  |    | (48,724)    | (83,181)    |
| Goodwill  |    | (1,001,764) | (859,284)   |
| Subtotal  |    | (1,161,248) | (1,051,309) |
| Net deferred income tax assets  | \$ | 1,160,731   | \$ 639,989  |

F-20

Table of Contents

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible.

Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods which the deferred tax assets are deductible, management believes it is more likely than not the Company will realize the benefits of these deductible differences, net of a valuation allowance of \$2,326,631 and \$120,000 at December 31, 2008 and 2007, respectively, related to the unrealized losses of marketable securities.

At December 31, 2008, the Company has net operating loss carryforwards for income tax purposes of \$2,175,246 available to offset future taxable income. Loss carryforwards of \$844,755 are subject to certain annual limitations of \$199,154 per year.

**Expiration date:**

|      |    |           |
|------|----|-----------|
| 2018 | \$ | 844,755   |
| 2026 |    | 149,937   |
| 2028 |    | 1,180,544 |
|      | \$ | 2,175,246 |

The Company adopted the provisions of FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement No.109 (FIN 48), on January 1, 2007. As a result of the implementation of FIN 48, the Company recognized a liability for uncertain tax positions in the amount of \$118,376, including interest of \$25,595, which was accounted for as an adjustment to the beginning balance of retained earnings. As of December 31, 2008, the Company has a recorded liability of \$7,552, including interest of \$2,236, for such uncertain tax positions.

The Company recognizes interest and penalties related to uncertain tax positions in income tax expense. For the years ended December 31, 2008 and 2007, the Company recognized expense (benefit) of \$(11,307) and \$5,467, respectively, related to accrued interest associated with uncertain tax positions.

The following table summarizes the changes in the Company's unrecognized tax benefits:

|                                       | 2008      | 2007       |
|---------------------------------------|-----------|------------|
| January 1,                            | \$ 28,456 | \$ 118,375 |
| Increase due to current tax positions |           | 22,037     |
| Settlements                           | (9,597)   | (45,294)   |
| Adjustment                            | (11,307)  | (66,662)   |
| December 31,                          | \$ 7,552  | \$ 28,456  |

The Company is generally no longer subject to U.S. federal, state and local tax examinations by taxing authorities for years prior to 2005.

(11) **Stock Options**

The Company has two stock option plans: the 2005 Stock Option Plan and the 2004 Non-Employee Directors' Stock Option Plan. The 1994 Incentive and Non-qualified Stock Option Plan was terminated in 2008 with the exercise of all outstanding options under this plan during year ended December 31, 2008. Under the 2005 and 2004 Plans, employees and directors may be granted options to purchase shares of common stock at the fair market value on the date of the grant.

Options granted under the 2005 and 2004 Plans vest at the date of the grant. The fair value of each option award is estimated on the date of grant using the Black-Scholes option-pricing model. Assumptions utilized in the model are evaluated and revised, as necessary, to reflect market conditions and experience on the respective dates of grant. The risk-free interest rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of the grant. Expected volatilities are based on the historical volatility of the Company's stock for

F-21

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Table of Contents

a period equal to the expected term of the options. The expected term of the options represents the period of time that options granted are outstanding and is estimated using historical exercise and termination experience.

Prior to the adoption of SFAS No. 123R, the benefit of tax deductions in excess of recognized stock compensation expense was reported as a reduction of taxes paid within operating cash flows. SFAS No. 123R requires that such benefits be recognized as a financing cash flow. The benefits of tax deductions in excess of recognized stock compensation expense for the years ended December 31, 2008 and 2007 were immaterial.

There were no options granted during 2008. The fair values of options granted during the years ended December 31, 2007 and 2006 were estimated on the date of grant using the Black-Scholes option pricing model based on the following weighted average assumptions in the table below:

|                         | Years Ended December 31, |        |        |
|-------------------------|--------------------------|--------|--------|
|                         | 2008                     | 2007   | 2006   |
| Expected term (years)   |                          | 5      | 5      |
| Risk-free interest rate |                          | 4.50%  | 5.08%  |
| Volatility              |                          | 78.83% | 84.03% |
| Dividend yield          |                          |        |        |

There were 1,000 stock options granted during the year ended December 31, 2007, all at an estimated fair value of \$5.92. There were 6,000 stock options granted during the year ended December 31, 2006. The estimated fair value at the date of grant was \$5.10 per option for the 1,000 stock options granted during the first quarter of 2006 and \$6.80 per option for the 5,000 stock options granted during the second quarter of 2006. There were no stock options granted during the third or fourth quarters of 2006. The estimated weighted average fair value of the stock options granted during the year ended December 31, 2006 was \$6.50 per option. Stock option activity during the years ended December 31, 2008, 2007 and 2006 was as follows:

|                            | Options Outstanding | Exercise Price Per Share Weighted Average | Contractual Term Weighted Average (years) | Aggregate Intrinsic Value |
|----------------------------|---------------------|---|---|---------------------------|
| Balance, December 31, 2005 | 67,000              | \$ 9.00                                   |   | \$                        |
| Granted                    | 6,000               | 9.80                                      |   |                           |
| Exercised                  | (3,000)             | 9.20                                      |   |                           |
| Expired                    | (12,000)            | 9.08                                      |   |                           |
| Balance, December 31, 2006 | 58,000              | 9.00                                      |   |                           |
| Granted                    | 1,000               | 9.15                                      |   |                           |
| Exercised                  | (10,000)            | 8.36                                      |   |                           |
| Expired                    | (13,000)            | 8.75                                      |   |                           |
| Balance, December 31, 2007 | 36,000              | 7.10                                      |   |                           |
| Granted                    |                     |   |   |                           |
| Exercised                  | 23,500              | 7.03                                      |   |                           |
| Expired                    |                     |   |   |                           |
| Balance, December 31, 2008 | 12,500              | \$ 7.25                                   | 1.83                                      | \$ 64,284                 |

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All options outstanding at December 31, 2008 are fully vested and exercisable. The total fair value of shares vested during the years ended December 31, 2008, 2007, and 2006 was \$0, \$5,920 and \$39,100, respectively. At December 31, 2008, there were 40,000 shares available for future grants under the plans, however, on April 25, 2007, the Company's Board of Directors elected to suspend future grants under all plans indefinitely. The Company recorded \$0, \$5,920 and \$39,100 of compensation expense for stock options for the years ended December 31, 2008, 2007 and 2006, respectively.

F-22

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Table of Contents**(12) Employee Benefit Plan**

The Company maintained a 401(k) investment plan (the Plan) for the benefit of its employees through December 31, 2006. Employees were eligible to participate in the 401(k) plan after a 12-month period of service. Under the Plan, employees elected to have up to 16% of their salary, subject to Internal Revenue Service limitations, withheld on a pretax basis and invested on their behalf. The Plan provided for discretionary contributions by the Company. For the year ended December 31, 2006, the Company did not provide for any discretionary contribution. Effective January 1, 2007, the Company terminated the Plan.

**(13) Fair Value Measurement**

Effective January 1, 2008, the Company adopted Statement of Financial Accounting Standards No. 159 ( SFAS 159 ), *The Fair Value Option for Financial Assets and Financial Liabilities*. SFAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value. The Company did not elect the fair value reporting option for any assets and liabilities not previously recorded at fair value.

Effective January 1, 2008, the Company adopted the provisions of Statement of Financial Accounting Standards No. 157 ( SFAS 157 ), *Fair Value Measurements*, applicable to all financial assets and liabilities and for nonfinancial assets and liabilities recognized or disclosed at fair value in the consolidated financial statements on a recurring basis (at least annually). SFAS 157 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The standard also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. SFAS 157 describes three levels of inputs that may be used to measure fair value:

**Level 1** Quoted market prices in active markets for identical assets or liabilities.

**Level 2** Observable market-based inputs or unobservable inputs that are corroborated by market data.

**Level 3** Unobservable inputs that are not corroborated by market data.

At December 31, 2008, the Company's investments in marketable securities are carried at fair value, based on quoted market prices, in the consolidated balance sheets and are classified within Level 1 of the fair value hierarchy, with the exception of \$1.5 million that have been valued, in the absence of observable market prices, by Mustang Capital Advisors, LP. The Funds investments in Level 1 securities are freely tradable and are listed on a national securities exchange or reported on the NASDAQ national market at their last sales price as of the last business day of the period.

Approximately \$1.5 million of the investments held by Mustang Capital Advisors, LP have been classified within Level 2 of the fair value hierarchy and have been valued, in the absence of observable market prices, by the management of Mustang Capital Advisors, LP. Fair value is determined using valuation methodologies after giving consideration to a range of observable factors including last known sales price; any current bids or offers on the stock; comparisons to publicly traded stocks with appropriate discounts for liquidity; size of position; control data research; and current market conditions. Those estimated values do not necessarily represent the amounts that may be ultimately realized due to the occurrence of future circumstances that can not be reasonably determined. Because of the inherent uncertainty of valuation, those estimated

values may be materially higher or lower than the values that would have been used had a ready market for the securities existed.

**(14) Fair Value of Financial Instruments**

The following table presents the carrying amounts and estimated fair values of the Company's financial instruments at December 31, 2008 and 2007. SFAS No. 107, *Disclosures about Fair Value of Financial Instruments*, defines the fair value of a financial instrument as the amount at which the instrument could be exchanged in a current transaction between willing parties:

F-23

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Table of Contents

|                                      | 2008               |               | 2007               |               |
|--------------------------------------|--------------------|---------------|--------------------|---------------|
|                                      | Carrying<br>amount | Fair<br>value | Carrying<br>amount | Fair<br>value |
| <b>Financial assets:</b>             |                    |               |                    |               |
| Cash and cash equivalents            | \$ 330,998         | \$ 330,998    | \$ 727,378         | \$ 737,378    |
| Money market investments             | 3,735,821          | 3,735,821     |                    |               |
| Trade-accounts receivable            | 1,064,389          | 1,064,389     | 994,085            | 994,085       |
| Notes receivable                     | 648,902            | 642,239       | 844,732            | 828,311       |
| Other receivables                    | 78,982             | 98,982        | 132,283            | 132,283       |
| Investments in marketable securities | 16,708,479         | 16,708,479    | 15,896,865         | 15,896,865    |
| <b>Financial liabilities:</b>        |                    |               |                    |               |
| Note payable - line of credit        |                    |               | 2,000,000          | 2,000,000     |
| Due to broker                        |                    |               | 342,022            | 342,022       |
| Long-term debt                       | 3,207,512          | 3,294,575     | 685,055            | 747,354       |
| Accounts payable                     | 812,839            | 812,839       | 733,983            | 733,983       |
| Accrued expenses and other           | 1,423,092          | 1,423,092     | 1,283,237          | 1,283,237     |
| Other liabilities                    | 1,208,147          | 1,208,147     | 89,039             | 89,039        |

F-24

Table of Contents

The following methods and assumptions were used to estimate the fair value of each class of financial instruments:

- Cash and cash equivalents, trade accounts receivable, other receivables, notes payable-line of credit, due to broker, accounts payable, accrued expenses and other liabilities: The carrying amounts approximate fair value because of the short maturity of those instruments.
- Notes receivable: The fair value is determined as the present value of expected future cash flows discounted at the interest rate which approximates the rate currently offered by local lending institutions for loans of similar terms to companies with comparable credit risk.
- Long-term debt: The fair value of the Company's long-term debt is estimated by discounting the future cash flows of each instrument at rates which approximate those currently offered to the Company for similar debt instruments of comparable maturities by the Company's lenders.

**(15) Impairment and Other Charges**

In 2006, the Company recorded impairment charges of \$46,284 related to leasehold improvements for which no future cash flows are anticipated associated with subleased properties. In 2008 and 2007 there were no such expenses.

The impairment charges relate to the Franchising operating segment as discussed in Note 16.

**(16) Reportable Segments**

The Company has organized segment reporting with additional information to reflect how the Company views its business activities. The Company-operated Restaurant segment consists of the operations of all Company-operated restaurants and derives its revenues from restaurant operations. This segment also includes net costs incurred from subleases of previously operated locations, which is presented separately. The Franchising segment consists primarily of franchise sales and support activities and derives its revenues from sales of franchise and development rights and collection of royalties from franchisees. The Investment Activity segment consists of investment activities and certain directly related expenses associated with legal matters. The Company does not allocate certain expenses to any business segment. These costs include expenses of the following functions: legal, accounting, stockholder relations, personnel not directly related to a segment, information systems and other headquarter activities. These unallocated expenses are designated as unallocated corporate expenses. Certain other expenses (such as sublease property expense, impairment and other charges, gains on settlement of insurance claims, and claims settlement and legal fees associated with a lawsuit) are also not allocated to any reportable segment.

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The following table summarizes reportable segment information:

|   | Years Ended December 31, |               |               |
|---|--------------------------|---------------|---------------|
|   | 2008                     | 2007          | 2006          |
| <b>Revenues from reportable segments:</b>             |                          |               |               |
| Restaurants   | \$ 13,083,237            | \$ 12,908,577 | \$ 12,985,109 |
| Franchising   | 4,121,510                | 4,349,036     | 4,418,831     |
| Total revenues  | \$ 17,204,747            | \$ 17,257,613 | \$ 17,403,940 |
| <b>Depreciation and amortization: (non-investing)</b> |                          |               |               |
| Restaurants   | \$ 379,102               | \$ 401,199    | \$ 385,332    |
| Franchising   | 630,196                  | 630,755       | 630,295       |
| Corporate   | 32,420                   | 31,063        | 41,865        |
| Total depreciation and amortization                   | \$ 1,041,818             | \$ 1,063,017  | \$ 1,057,492  |
| <b>Interest expense:</b>                              |                          |               |               |
| Restaurants   | \$ 61,856                | \$ 76,732     | \$ 136,097    |
| Corporate   | 22,988                   | 29,531        | 23,421        |
| Total interest expense                                | \$ 84,844                | \$ 106,263    | \$ 159,518    |

F-25

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Table of Contents

|  | Years Ended December 31, |                       |                     |
|--|--------------------------|-----------------------|---------------------|
|  | 2008                     | 2007                  | 2006                |
| <b>Interest income:</b>  |                          |                       |                     |
| Corporate  | \$ 110,718               | \$ 106,741            | \$ 69,269           |
| <b>Total interest income</b>   | <b>\$ 110,718</b>        | <b>\$ 106,741</b>     | <b>\$ 69,269</b>    |
| <b>Income (loss) from restaurant and franchise operations:</b>             |                          |                       |                     |
| Restaurants and equity in joint venture                                    | \$ 740,847               | \$ 991,268            | \$ 685,777          |
| Franchising  | 2,182,782                | 2,667,653             | 2,554,280           |
| Subleased restaurant expenses, impairment and other unallocated expenses   | (725,270)                | (842,951)             | (399,831)           |
| Corporate  | (2,021,776)              | (2,308,197)           | (2,268,016)         |
| <b>Total income from restaurant and franchise operations:</b>              | <b>\$ 176,583</b>        | <b>\$ 507,773</b>     | <b>\$ 572,210</b>   |
| <b>Income (loss) from investment activities</b>                            |                          |                       |                     |
| Investment advisory fee income   | \$ 240,478               | \$                    | \$                  |
| Net realized gain (loss) on sales of marketable securities                 | 204,232                  | 1,624,618             |                     |
| Net unrealized losses on marketable securities held by limited partnership | (7,130,689)              | (2,787,876)           |                     |
| Expense of investment activities   | (1,057,730)              |                       | (105,000)           |
| <b>Total income (loss) from investment activities</b>                      | <b>\$ (7,743,709)</b>    | <b>\$ (1,163,258)</b> | <b>\$ (105,000)</b> |
|  | <b>2008</b>              | <b>2007</b>           |                     |
| <b>Total assets:</b>   |                          |                       |                     |
| Restaurants  | \$ 6,523,219             | \$ 6,032,635          |                     |
| Franchising  | 1,920,513                | 2,803,432             |                     |
| Corporate  | 1,203,830                | 1,901,467             |                     |
| Investment activities  | 26,305,261               | 19,771,538            |                     |
| <b>Total assets</b>  | <b>\$ 35,952,823</b>     | <b>\$ 30,509,072</b>  |                     |
| <b>Total goodwill:</b>   |                          |                       |                     |
| Restaurants  | \$ 3,539,057             | \$ 3,539,057          |                     |
| Franchising  | 771,143                  | 771,143               |                     |
| Investment activities  | 556,062                  |                       |                     |
| <b>Total goodwill</b>  | <b>\$ 4,866,262</b>      | <b>\$ 4,310,000</b>   |                     |

**(17) Amortizing Intangible Assets**

|  | As of December 31, 2008 |                                      |                          | As of December 31, 2007 |                                      |                          |
|--|-------------------------|--------------------------------------|--------------------------|-------------------------|--------------------------------------|--------------------------|
|  | Gross carrying amount   | Weighted average amortization period | Accumulated amortization | Gross carrying amount   | Weighted average amortization period | Accumulated amortization |
| <b>Amortizing intangible assets:</b>                       |                         |                                      |                          |                         |                                      |                          |
| Franchise royalty contracts                                | \$ 9,454,432            | 15.0                                 | \$ 9,454,432             | \$ 9,454,432            | 15.0                                 | \$ 8,824,136             |
| Investment in management contracts and limited partnership | 1,420,000               | 10.5                                 | 73,762                   |                         |                                      |                          |

EXPECTED MATURITY DATE

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agreements

|    |            |      |    |           |    |           |      |    |           |
|----|------------|------|----|-----------|----|-----------|------|----|-----------|
| \$ | 10,874,432 | 10.5 | \$ | 9,528,194 | \$ | 9,454,432 | 15.0 | \$ | 8,824,136 |
|----|------------|------|----|-----------|----|-----------|------|----|-----------|

In connection with the acquisition of Mustang Capital Advisors, L.P. (See Note 2) in 2008, the Company acquired certain customer related intangible assets. The value assigned to these intangible assets of \$1,420,000 was determined based on the present value of the estimated cash flows to be generated by the assets.

F-26

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Table of Contents

Amortization expense for amortizing intangible assets for the years ended December 31, 2008, 2007 and 2006 was \$704,058, \$630,296, and \$630,296, respectively. Franchise royalty contracts are fully amortized as of December 31, 2008. The estimated annual amortization expense for the remaining amortizing intangible assets is \$75,238 per year through 2018.

**(18) Commitments and Contingencies**

**Commitments**

Western Investments, Inc. is the general partner of Western Acquisitions, L.P. Limited partnership interests in Western Acquisitions, L.P. are either Class A or Class B. The classes are identical except that Class A interests must be held for two years, whereas Class B interests are held for five years. Additionally, Western Investments, Inc., will, at the end of the five year period, reimburse the holders of Class B interests for the first 30% of any cumulative net losses they may suffer. As of December 31, 2008, Western Acquisitions, L.P., did not have any limited partners holding Class B interests. As of December 31, 2008, minority limited partners holding Class A interests held 14.89% ownership.

The Company has a severance provision contained within the Employment Agreement with its Chief Financial Officer. The agreement provides certain termination benefits in the event that employment with the Company is terminated without cause and upon a change of control. Under the terms of the agreement, in the event of termination without cause the executive will receive termination benefits equal to six months of the executive's annual base salary in effect on the termination date and the continuation of health and welfare benefits through the termination date of the agreement. Under a change of control, the executive will receive termination benefits equal to one year of the executive's base salary in effect on the change of control date and the continuation of health and welfare benefits through the termination date of the agreement.

The Company has a severance provision contained within the Employment Agreement with the President of one of its subsidiaries, Western Sizzlin Franchise Corporation. The agreement provides for an automatic renewal of one year unless the Company or the executive provides notice of termination as specified in the agreement. Under the term of the agreement, in the event of termination without cause, the executive will receive termination benefits equal to one year of the executive's annual base salary in effect on the termination date and the continuation of health and welfare benefits through the termination date of the agreement.

**Contingencies**

The Company accrues for an obligation for contingencies, including estimated legal costs, when a loss is probable and the amount is reasonably estimable. As facts concerning contingencies become known to the Company, the Company reassesses its position with respect to accrued liabilities and other expenses. These estimates are subject to change as events evolve and as additional information becomes available during the litigation process.

Little Rock, Arkansas Lease



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In September 2006, the Company was served with a lawsuit filed in the Circuit Court of Pulaski County, Arkansas, captioned *Parks Land Company, LLP, et al. v. Western Sizzlin Corporation, et al.* The plaintiffs are owners/landlords of four restaurant premises located in the Little Rock, Arkansas metropolitan area which had been leased pursuant to a single ten year lease agreement. The Company occupied these locations for a period of time, but before the end of the lease, subleased each of these premises to various operators. The ten year lease agreement expired on June 30, 2006. In the lawsuit the plaintiffs sought recovery of alleged damages for certain repair and maintenance expenses on the premises, for the replacement of certain equipment, for diminution of property value, and for loss of rental income, as well as interest and costs. The case was tried to a 12 person jury in Little Rock, starting February 12, 2008. The jury returned a verdict for the plaintiffs on February 20, 2008, in the amount of \$689,526. On February 29, 2008, the Circuit Court of Pulaski County, Arkansas entered judgment on the jury's verdict in the case against the Company in the amount of \$689,666 plus plaintiff's legal costs. The Company posted a bond to secure the judgment and stay collection pending the appeal of the verdict. The appeal has now been fully briefed by both sides. A decision from the Arkansas Court of Appeals is expected by June 2009. If the appellate court affirms the judgment against the Company, the amount due the plaintiffs would include interest accrued on the judgment from February 29, 2008, through the period of the decision on appeal. This additional amount is not expected to exceed \$70,000. If the verdict is affirmed, the Plaintiffs will renew their efforts to have the trial court

F-27

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Table of Contents

award Plaintiffs their attorneys' fees. To date, the court has declined to make any award of fees. There has been no change in the Company's loss contingency accrual of \$900,000 since December 31, 2007.

## Other

The Company is involved in various other claims and legal actions arising in the ordinary course of business. In the opinion of the management, the ultimate disposition of these matters will not have a material adverse effect on the Company's financial condition, results of operations or liquidity.

**(19) Investment in Unconsolidated Joint Venture**

The Company is a partner in a 50/50 joint venture with a franchisee, for a new restaurant in Harrisonburg, Virginia. During October 2005, the joint venture entered into a loan agreement for \$3.05 million and the Company guaranteed 50% of the loan obligation, with the partner guaranteeing the other 50%. The Company estimates the fair value of the guarantee to be approximately \$30,000 and recorded the amount in other long-term liabilities and in investments in unconsolidated joint venture on the accompanying balance sheet at December 31, 2008 and 2007. The term of the guarantee extends through July 1, 2026 and the Company would be required to perform under the guarantee should the joint venture not be able to meet its scheduled principal and interest payments. Pursuant to the joint venture agreement, a cash contribution of \$300,000 from each 50/50 partner was also made at the closing of this financing. The Company is accounting for the investment using the equity method and the Company's share of the net income (loss) for the joint venture of \$199,699, \$157,516 and (\$160,902) for the years ended December 31, 2008, 2007 and 2006, respectively, is included in equity in earnings of unconsolidated joint venture. Distributions were received from the joint venture of \$200,000, \$0, and \$0 for the years ended December 31, 2008, 2007, and 2006, respectively. The amount of the Company's equity represented by undistributed earnings of the joint venture totaled \$274,695 at December 31, 2008. The restaurant opened for business on December 14, 2006.

**Financial Data**

The following is selected financial information for the joint venture at December 31, 2008 and 2007:

|                                      | <b>Year Ended<br/>December 31,<br/>2008<br/>(unaudited)</b> | <b>Year Ended<br/>December 31,<br/>2007<br/>(unaudited)</b> |
|--------------------------------------|---|---|
| <b>Statement of Operations Data:</b> |   |   |
| Total revenues                       | \$ 4,890,392  | \$ 4,960,695  |
| Cost of food                         | 2,007,969   | 2,110,602   |
| Payroll expense                      | 1,445,213   | 1,502,077   |
| Marketing and smallware expense      | 189,741   | 204,374   |
| General and administrative           | 456,926   | 404,106   |
| Depreciation and amortization        | 203,341   | 200,869   |

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|   |            |            |
|---|------------|------------|
| Interest  | 212,646    | 223,574    |
| Other income (expense)  | (24,842)   | 62         |
| Net Income (loss)   | 399,398    | 315,031    |
| <b>Balance Sheet Data:</b>                                      |            |            |
| Cash  | \$ 257,490 | \$ 332,740 |
| Current receivables   | 2,378      | 7,557      |
| Prepaid expenses  | 11,364     | 3,171      |
| Inventory   | 18,035     | 16,384     |
| Land, leasehold improvements, and construction in progress, net | 3,566,081  | 3,750,051  |
| Loan costs, net   | 10,420     | 11,946     |
| Total assets  | 3,865,970  | 4,122,050  |
| Loan payable  | 2,951,460  | 3,138,580  |
| Accounts payable and accrued expenses                           | 365,120    | 433,479    |
| Members' equity   | 549,389    | 549,991    |

F-28

Table of Contents**20) Quarterly Results of Operations (Unaudited)**

The following tables summarize unaudited quarterly results of operations:

|   | Quarter ended |              |              |              |
|---|---------------|--------------|--------------|--------------|
|   | March 31      | June 30      | September 30 | December 31  |
| Year ended December 31, 2008:                                 |               |              |              |              |
| Total revenues  | \$ 4,175,251  | \$ 4,562,228 | \$ 4,435,137 | \$ 4,032,131 |
| Income (loss) before income tax expense and minority interest | (4,588,974)   | (2,257,287)  | 3,213,314    | (3,897,122)  |
| Net income (loss)   | (3,850,995)   | (1,956,024)  | 2,939,713    | (3,486,937)  |
| Net income (loss) per common share basic                      | (1.43)        | (.72)        | 1.04         | (1.24)       |
| Net income (loss) per common share diluted                    | (1.43)        | (.72)        | 1.04         | (1.24)       |

|   | Quarter ended |              |              |              |
|---|---------------|--------------|--------------|--------------|
|   | March 31      | June 30      | September 30 | December 31  |
| Year ended December 31, 2007:                                 |               |              |              |              |
| Total revenues  | \$ 4,129,690  | \$ 4,690,571 | \$ 4,522,015 | \$ 3,915,337 |
| Income (loss) before income tax expense and minority interest | 251,731       | 378,009      | 3,894,617    | (5,168,316)  |
| Net income (loss)   | 149,957       | 232,163      | 2,472,115    | (3,097,864)  |
| Net income (loss) per common share basic                      | .08           | .13          | 1.38         | (1.38)       |
| Net income (loss) per common share diluted                    | .08           | .13          | 1.37         | (1.38)       |

Total revenues and net income are typically higher in the second and third quarters as opposed to the first and fourth quarters in the Company's industry segment.

Realized gains on sales of marketable securities, net, of \$1,972,252 were recorded in the third quarter of 2007.

During the fourth quarter of 2007, the Company recorded \$2,430,000 of unrealized losses, net of minority interest, on marketable securities held by the limited partnership. In addition, the accrual for the legal loss contingency of \$600,000 (See Note 18) and additional legal expenses associated with investment activities were other major reasons for the net loss in the fourth quarter of 2007.

During 2008, unrealized (losses) gains on marketable securities held by limited partnerships totaled \$(4.2) million, \$(2.3) million, \$3.3 million, and \$(3.9) million, for the first, second, third and fourth quarters, respectively.

During 2008, investment advisory fee income of \$124,024 and \$116,454 were recorded during the third and fourth quarters, respectively.

